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State Auditor's Office

Claims and Benefits Performance Audit

Washington State's Claims and Benefits Performance Audit

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Washington State's Claims and Benefits Performance

EXECUTIVE SUMMARY

Background

Each year, the State of Washington spends approximately $10 billion to provide services and benefits to those in need. The state administers programs to assist eligible low-income residents in obtaining basic living assistance, employment, health care, and food. The state also assists workers who have become unemployed or who have suffered a job-related injury. The benefits are paid for with a combination of federal ($3.5 billion), state ($2.8 billion) and employer ($3.4 billion) funds. The federal and state funding for these programs account for approximately 30 percent of the state's operating budget (employer trust accounts are not included in the general fund). Given the significance of these programs to our state's citizens and the effect on the state government's available resources, understanding the role of performance in program outcomes and cost management is important to informed decision-making.

Audit Objectives and Requirements

The state Legislature directed this performance audit to focus on the state's administration of certain claims and benefits payments in five agencies. The audit is to determine whether current performance measures are relevant and their results reported reliably. A conclusion must be reached regarding the achievement of program objectives. Best performance management practices are to be recognized. In addition, the Washington State Auditors' Office articulated 10 related objectives discussed in this report. (See Appendix C.)

Program Objectives and Measures

Performance measures are a prerequisite to a performance audit. Conclusions about how well any organization performs cannot be made without an understanding of organizational goals and objectives and how activities are managed to produce desired results. The federal government has several programs designed to assist qualified individuals in obtaining basic living assistance, employment, health care and food. In general, the federal government sets overall guidelines for these programs. Through legislation, rule-making, policies and procedures, the state sets up its own departments and develops more detailed plans to administer these programs in accordance with overall federal guidelines and requirements. The state also has its own programs to assist individuals and families in obtaining health care. A key factor in evaluating these programs is determining whether they accomplish their objectives.

Results

The state's results are consistent and generally positive. No one program performed at an outstanding level, yet all were better than average. From a statewide perspective, this project identifies the following overarching themes in claims and benefit performance management:

- **Performance levels increase when there is clear legislative and regulatory expectations with executive support**. The programs that performed well in terms of meeting objectives are those in which performance expectations are clearly articulated in legislation and regulation. The most drastic improvement in any program was due, in part, to strong direction from the Governor's Office. Professional management understands priorities. Programs that have legislation that clearly articulates program performance expectations and priorities will be better managed than programs that do not. In our opinion, the Governor's support for achieving high performance levels cannot be underestimated.

- **The state should focus its performance measures on program effectiveness**. As the state becomes more practiced in integrating strategic planning with performance measures, its ability to measure performance improves. The state made significant improvements in the measures used for 2003 performance in comparison to those used for 2002. However, we found many areas in which a more balanced approach to incorporating program outcomes would improve performance measurement systems.

- **The state needs to anticipate and plan for changes in federal performance measurement**. The landscape of federal performance measurement is changing, and the state needs to anticipate and plan for these changes. Otherwise, potential additional funding for the state's programs will be lost. Since these measures are not incorporated into current performance agreements, their significance to funding opportunities may not be visible to legislators or executive leadership.

- **The state should integrate various performance measurement systems into an overall performance measurement system**. All programs respond to the Balanced Scorecard system, the Performance Agreement with the Governor, agreements between agency heads and the divisions as well as the state Office of Financial Management's performance reporting system. These systems often measure different performance indicators. While each system does not need to report every measure employed by other systems, each should build upon the other in an integrated fashion. We found performance indicators in broader systems that were not present in more narrowly defined systems. In addition, we found that the state did not include or use certain federal performance measures in its program performance measurement systems. Having a sense of priorities is very important in managing program performance. Without linkage of measures between systems, this sense of priorities is lost and some confusion is created. The state should, and could without much effort, integrate performance measures.

- **The state's structure does not enhance benefit coordination**. As stated above, the federal government sets overall guidelines for certain programs, and then the state sets up its own departments to administer them. This process has happened over a long period of time, without an overall design. We have not concluded whether smaller focused workgroups deliver services more efficiently and more effectively than larger integrated groups. However, we know that the current governance design creates issues with benefit coordination and information sharing among the agencies that deliver the services.

  Information about benefits individuals or families are receiving from other programs either is not available or is not used by programs in granting eligibility status to program participants. In addition, federal and state program designs contribute to an attitude whereby state management is not concerned with, and doesn't understand, other benefit programs and whether an overlap of benefits is appropriate. As a result, there is little, if any, focus on the overall support level given to any specific individual. The state should consider whether its legislative and executive branch functions are aligned to provide the appropriate level of oversight of benefit coordination issues.

- **The state's information systems were not designed to support performance management**. Issues regarding the state's information systems are well documented, and we do not repeat them in this report. System development efforts have been directed toward assisting in work practices or are designed for the payment of claims or other financial functions. They are not designed for performance measurement. As a result, the state spends effort in accumulating performance measure results that are not available from its main claims or benefits processing systems.

  Overall, we found that the state is providing reasonably reliable information to decision-makers. However, the way in which this information is accumulated and compiled comes with a cost in diverted staff resources. The state should incorporate performance measure needs in its long-term strategic systems information planning efforts, to more fully automate measurement and reporting of performance results and, therefore, save on staff resources that are needed to support these efforts.

Performance Reporting and Management Control Systems

State agencies are using performance measures in a variety of ways. They are identified and discussed more fully in this report. Performance is managed with performance measures, but such measures' usefulness varies among agencies. The programs that have federally mandated quality assurance functions are generally better at quality assurance than those that do not have those requirements. With the exception of the Department of Labor and Industries, which has a quality assurance function, we found that agencies without a federal quality assurance requirement did not address control systems with the same rigor as those with such a requirement. In general, internal audit functions contributed to the overall control structure but did not focus their efforts on the reliability of performance measurement systems. A small redirection of their effort would contribute to enhanced accountability to the performance of claims and benefit programs.

Performance Evaluations

All programs we reviewed did well in this area, using a variety of evaluation measurements. However, each agency's performance profile differed in the components that contributed to the overall grading. The section of this report that provides the state's results describes in more detail how the evaluation resulted in the overall grading of program performance. In general, each program was evaluated on the following criteria:

- Performance measures are valid in relation to the program objectives.
- Desired performance level achievement.
- Quality and process management practices.
- Fiscal productivity and efficiency.

The evaluation produced the following grades:

Program	Grade
WorkFirst	B-
Food Stamps	C+
Medicaid	B
Basic Health	B-
Unemployment Insurance	B-
Workers' Compensation	C+
Vocational Rehabilitation	C+

The grades are less important than the reasons for them. Also important is the context and environment in which each of the programs operates. For example, employment-driven programs such as WorkFirst and Unemployment Insurance, both rating a B-, should be viewed in the context of Washington State's high unemployment rate. Such a performance grading, in light of current economic conditions, should be viewed more favorably than under other more positive conditions.

How to use this report

Detailed information about performance measures and systems used to report performance results is contained in program-specific appendices to this report. Summary-level information has been provided in separate sections in the body of this report. Conclusions about performance are found in these separate sections. Information that supports these conclusions is found in the appendices. While the appendices contain more detailed information, for purposes of clarity, they also contain some of the information provided in the report section. As such, there is some degree of duplication between the report and the appendices.

Conclusion

While the state can improve its performance in the management of its claims and benefits programs, it is performing relatively well. If the state is committed to effective performance management it should:

- Clearly articulate performance expectations in its statutory framework.
- Have executive leadership support improvements in a few, focused performance goals.
- Balance its performance goals with more program outcome measures.
- Integrate the various performance systems to provide clear priorities.
- Consider organizational structure and governance realignment to support performance, benefit coordination and information-sharing.
- Include performance measurement needs in long-term strategic information systems planning efforts.

We wish to thank the management and staff of the State Auditor's Office for the outstanding level of support and assistance provided in this project. We also appreciate the willingness of the state agency staff and management to engage in this process. We found program staff and management to be highly concerned with contributing to effective performance management.

Miller & Miller Consulting Services, P.S.

October 31, 2002

BACKGROUND

Audit Objectives and Requirements

The state Legislature directed this performance audit to focus on the state's administration of certain claims and benefits payments in five agencies. The audit is to determine whether current performance measures are relevant and their results reported reliably. A conclusion must be reached regarding the achievement of program objectives. Best performance management practices are to be recognized.

Audit Areas Examined

The audit examines direct grants to clients, direct payments to providers and workers' compensation payments. The legislation requires that the following five agencies be included in the audit:

- Department of Social and Health Services (DSHS)
- Department of Community, Trade, and Economic Development (DCTED)
- Employment Security Department (ESD)
- Department of Labor and Industries (L&I)
- Health Care Authority (HCA)

In addition the Auditor's Office requires this audit to grade agencies' performance in administering state claims/benefits in these claims/benefits programs:

- Medicaid (DSHS)
- Food Stamps (DSHS)
- Vocational Rehabilitation (DSHS, L&I)
- WorkFirst (DSHS, ESD, DCTED)
- Unemployment Compensation (ESD)
- Worker's Compensation (L&I)
- Basic Health Plan (HCA)

Audit Methodology

The Auditor's Office contracted with Miller & Miller Consulting Services, P.S. (Miller & Miller) to conduct this audit. As required by the legislation, Miller & Miller followed generally accepted government auditing standards. These standards pertain to auditors' professional qualifications, the quality of audit effort and the characteristics of professional, meaningful and readable audit reports. See Appendix C for additional information regarding audit methodology.

Performance Measures and this Audit

Performance measures are a prerequisite to a performance audit. Conclusions about how well an organization performs cannot be made without an understanding of organizational goals and objectives and how activities are managed to produce desired results.

This report reviews performance measures' validity or relevance as to whether they contribute to achieving objectives. Valid performance measures provide information about how well organizational goals and objectives are met. We assess the validity or relevance of performance measures by the extent to which the measures focus on key aspects of a program. We assess the reliability of performance measures by the extent to which information is accurate and is provided from a well-controlled system. The extent to which performance data is verifiable contributes to our assessment of whether performance information is reliable.

To assist the users of this report in understanding how we use performance measurement terminology, we have provided the following general discussion of performance measurement systems.

Performance Measurement: A Primer

Performance measurement and benchmarking systems tools historically are used by the private sector to improve work processes and to reduce associated costs. Historically, governments, including Washington State, have relied on financial, accounting and budget results to measure performance. These traditional measurement methods fail to inform management about the results of the programs, and do not provide a means to evaluate performance in a detailed manner or to consider the perspective of the clients served by the programs. Washington has recognized the need for performance measurement in the management of its programs and services by instituting a performance measurement system.

Performance measurement and benchmarking are a means to an end. Used effectively, they improve the effectiveness and efficiency of the services that governments deliver. While performance measurement systems can be used in a variety of ways, they typically benefit the following functions:

- **Planning:** Performance measures are used to assess whether strategies, goals and objectives are achieved.

- **Budgeting:** Performance measures are used in making budget decisions. Performance-based budgeting can be used to determine how to allocate resources.

- **Operations Management:** Performance measurement assists managers in directing resources, communicating priorities to staff, communicating performance to elected officials and in identifying opportunities to improve.

A performance measure is a baseline or standard that governments can use to assess the effectiveness and/or efficiency of their programs and services. Performance measures are typically classified in four types:

- **Input measures** are designed to report the amount of resources, either financial or staffing, dedicated to a program.

- **Output measures** are designed to report the number of units of service provided by a program. This is usually expressed in terms of workload, cases, claims processed, etc.

- **Outcome measures** are designed to capture the effectiveness of a program or how the program affects the clients served.

- **Efficiency measures** are designed to measure the cost per unit of output. They are sometimes referred to as fiscal productivity measures.

Once a performance measurement system is established, benchmarking is the next step toward achieving improved service delivery. Benchmarking is the process of comparing the results of performance indicators with those indicators of other comparable entities. This highlights opportunities for improvement.

Effective performance management systems incorporate a balance of the four types of measures with regular benchmarking. In this audit, we indicate areas in which a better balance of measures should be considered. For example complementary measures regarding outcomes and productivity should be added to measures focusing only on output or workload.

Performance measurement systems also present certain challenges and dangers. For example:

Challenges

- The development of new performance measurement systems requires additional time and resources to maintain and collect relevant information and data. Either new data capture and tracking systems are implemented or labor-intensive patchwork fixes to existing systems are used.

- Effective performance measurement and benchmarking require reliable and comparable financial and operational information across agencies within a state or between states.

Dangers

- Performance measures may produce unintended changes in behavior. A measure of time to deliver a service without a complementary outcome measure may compromise the quality of the service.

- Programs do not perform in a vacuum. Program staff cannot control societal and environmental influences. Staff may resent additional accountability requirements when they are not able to control certain variables that may negatively affect performance.

THE STATE'S RESULTS

Introduction

This section of the report is designed to address statewide issues, rather than program-specific issues, which are discussed later. While this section does include information more fully discussed in other sections or in the appendices, it provides information not found in other sections. The information provided includes a brief summary of the programs, their financial significance, overall assessments of performance and results of this performance audit from a statewide perspective.

Summary Of Program Objectives

The federal government has several programs designed to assist eligible individuals in obtaining basic living assistance, employment, health care, and food. In general, the federal government sets overall guidelines for these programs. The state then sets up its own departments and more detailed plans to administer these programs in accordance with overall federal guidelines and requirements. Some federal programs require that the state provide matching funds. The state also has its own programs to assist individuals and families in obtaining health care.

Economic Assistance Programs

Washington's WorkFirst program, established under the federal, state and tribal Temporary Assistance For Needy Families (TANF) assistance program, is focused on providing applicants with paid, unsubsidized employment. This program provides job training. It can also provide emergency assistance in several areas such as childcare, housing, transportation, food, medical care, and employment-related expenses. The state also participates in the Food Stamp Program, which is designed to help eligible low-income families purchase the food they need for good health.

Medical Assistance Programs

The state has several programs with a general objective of assisting various segments of the population in obtaining health care. Programs in this category include Medicaid, State Children's Insurance Program (SCHIP), and the Basic Health Plan. Medicaid is established under the federal Medical Assistance Program. Its goal is to provide eligible low-income persons with medical assistance. The state also has established the Basic Health Plan. The goal of this program is to provide basic health care services to working persons and others who lack coverage and are not eligible for Medicaid, at a reasonable cost.

Employment Assistance Programs

The state has programs such as the Worker's Compensation Program to assist qualified individuals and their families with relief when a worker is injured in their work and the Unemployment Compensation Program. This program assists workers who become unemployed involuntarily.

Another program established to assist eligible individuals in finding appropriate employment is Vocational Rehabilitation. This program is established under the federal Rehabilitation Act of 1973 and the Workforce Investment Act of 1998. This program provides an Individualized Plan for Employment and collaborates with other workforce development, educational and human resource programs to assist eligible individuals with disabilities in finding appropriate employment.

Financial Significance

The relative funding for these programs is provided in the following chart. Most programs share the costs of the program with the federal government. Certain programs such as Unemployment Insurance and Workers' Compensation are funded with employer taxes and premiums. An approximate indication of volume levels for the past fiscal year is provided parenthetically if provided by the program.

PROGRAM	Federal Funding	State Funding
Medicaid:		
Medical Assistance (26.3 million claims)	$ 1,592,415,394	$ 1,453,403,333
Mental Health (120,000 cases)	235,577,246	158,042,533
Developmental Disabilities	267,872,921	180,999,990
Aging & Adult Services	486,563,795	476,423,417
Total Medicaid	2,582,429,356	2,268,869,273
Unemployment Compensation **Note (1)** (138,000 beneficiaries, 367,000 new claims)	69,733,675	1,927,367,897
Department of Labor and Industries (60,000 cases, 160,000 new claims)		1,515,193,795
Food Stamps (170,000 cases)	336,901,305	41,047,512
Division of Vocational Rehabilitation (15,000 cases)	32,258,656	11,529,194
Basic Health Plan (125,000 enrolled)		274,590,791
WorkFirst/TANF:		
Economic Services Administration (ESA) (55,000 cases)	533,572,147	213,236,841
Employment Security Department **Note (2)**	28,941,946	11,564,626
Community Trade & Economic Development **Note (2)**	14,487,565	5,788,943
Total WorkFirst and TANF Combined	577,001,658	230,590,410
Total All Programs	3,528,590,973	6,269,188,871

(1) Federal Share estimated based on 2002 Federal Allocation
(2) Federal Share estimated based on ESA funding split

Overall Rating of the State's Performance

A perfect claims or benefit system would provide all benefits to all people who deserve them at a level of no more than their entitlement. There would be no fraud and clients would fully report their economic situations to agencies. Since the design of the programs is so straight-forward, agencies would be completely accurate in paying claims and providers would be equally accurate in their billings. Decisions and due process would occur expeditiously. Almost all funds would go directly toward obtaining positive program outcomes. This is not the reality for the myriad benefit programs administered by the state. However, the state is working to improve its performance in all of these areas.

Legislation requires this performance audit to indicate and grade agencies' performances in administering state claims benefits. Information supporting the grading decisions is provided in the appendices to this report. All programs performed fairly well using a variety of evaluation measurements. However, each agency's performance profile differed in the components that contributed to the overall grading. In general, each program was evaluated on the following criteria:

- Performance measures are valid in relation to the program objectives.
- Desired performance levels achievement.
- Quality and process management practices.
- Fiscal productivity and efficiency.

The evaluation produced the following grades:

Program	Overall Grade	Performance Measures are Valid for Program Objectives :	Desired Performance Levels are Achieved:	Quality and Process Management Practices:	Fiscal Productivity and Efficiency:
WorkFirst	B-	A-	B	C+	B-
Food Stamps	C+	B	C	B+	C
Medicaid	B	A-	B+	B	C+
Basic Health	B-	C+	B+	C+	B-
Unemployment Insurance	B-	A-	C	B	B+
Workers' Compensation	C+	C	C	B	B
Vocational Rehabilitation	C+	A	C	C	C

Performance measures are graded based on federal objectives, state objectives and participant outcomes. The programs receiving the highest grades had measures that addressed all objectives and participant outcomes. Those with lesser grades needed more measures addressing key objectives or participant outcomes.

Performance levels are graded based on whether the program met internal performance targets and the comparison to national averages or peer states (see discussion below). Three programs (Medicaid, Basic Health and Worker's Compensation) did not have such comparisons and were not graded in those areas. Their performance scores are based solely on whether they met internal targets.

Quality and process management is graded based on the programs established quality assurance functions, internal audit and customer satisfaction survey results. The three programs that had customer satisfaction survey results were Medicaid, Unemployment Insurance and Worker's Compensation. The results of these surveys were positive and tended to increase the overall scoring. All programs scored the same for internal audit as all function in a traditional manner and are not focused on the performance measures or the integrity of the reported results.

Fiscal productivity and efficiency is graded on results of financial comparisons internal to the state, external comparisons and benefit coordination. Two programs (Food Stamps and Basic Health) did not have external comparisons and were not graded.

More information about the results of the performance audit work is contained in the program sections of the report and in the appendices.

Performance in Relation to Other States

Comparative States

Appendix C explains the peer state selection process. Five states survived our rigorous comparison procedure. These states are Massachusetts, Indiana, Missouri, Wisconsin, and Oregon. All of these states, except for Oregon, have a population (as of 2000) within approximately 500,000 of Washington's population and were comparable in many different demographic characteristics.

We believe this rigorous approach to identifying peer states is very beneficial for the purpose of this performance audit for the following reasons:

- None of the agencies expressed that they had identified states that could be used for comparison purposes. This may indicate a reluctance to benchmark or may signify that the state has not sought out the opportunity to benchmark its performance results. This performance audit provides this benefit.

- The states selected are used for all of the programs selected for this project. This minimizes objections to selective peer comparisons that differ between programs and counters the potential objection that the peer states are unlike Washington. In fact, these states are very much like Washington.

- This approach provides for a consistent "yardstick" that can be used among all of the programs.

Summary of Comparison Results

The program-specific appendices to this report contain a substantial amount of comparative information regarding performance and financial performance measures. Some programs are compared to other states by the federal government in many performance and operating statistics. Other programs have very few or no comparative information with other states. Based upon available comparable data, the following chart indicates how well the state compares to other states and national averages.

To present a summary of comparisons, some groupings and consolidations of measures were necessary. In such cases, simple averages of many related measures were calculated. The chart below indicates the program included in this audit and the key measures or groupings of measures that are used for comparison purposes. The chart also shows what the indicator is measuring (i.e., outcomes, process administration, etc.). The final two columns present the state's ranking in the selected measures in relation to national comparisons and the ranking with the peer states previously listed.

PROGRAM	MEASURE TYPE	NATIONAL RANKING (1)	PEER RANKING (2)
Economic Assistance Programs:			
WorkFirst:			
Job entry rate and increases in the rate	Outcomes	41	4
Success in the Workforce	Outcomes	15	3
Food Stamps:			
Payment Error Rate	Process Administration	34	3
Denied Benefit Error Rate	Process Administration	40	5
Medical Assistance Programs:			
Medicaid:			
Cost per Eligible	Cost Containment	N/A	1
Administration Efficiency	Process Administration	34	5
Leveraging Federal Funds	Financial	37	5
Basic Health Plan	No Comparisons	N/A	N/A
Employment Assistance Programs:			
Unemployment Insurance:			
Timeliness	Process Administration	28	3
Decisions	Process Administration	19	2
Workers' Compensation	Cost of Service	13	2
Vocational Rehabilitation	Outcomes	20	3

(1) Out of 50 or 51
(2) Out of 6

Benefit Coordination

One of the requirements of this performance audit was a determination as to whether clients are appropriately receiving program benefits from more than one agency and a determination as to whether clients are receiving the same or similar benefits from more than one agency. An evaluation as to possible common criteria that might be used to more effectively combine or coordinate these activities in some type of "one-stop shopping".

Appendix C (Audit Methodology) discusses the work on determining the degree to which benefits are coordinated. It also contains a discussion of the significant issues related to Social Security numbers and how the state's use of Social Security numbers hinders the state's ability to share information in a way that

enables the state to detect errors in eligibility and overpayments. Based on our sample, the number of inappropriate payments was 5.4 percent of the sample. For those agencies that measure error rates, this result is consistent with their results. The main cause of the error was that the benefits and or wages were not reported and would have made a difference in the eligibility determination. This rate might have been higher if the Social Security number issue could have been resolved and a conclusion drawn about whether inappropriate payments had occurred.

The state allows for the overlap of benefits in its program design. The responses from the agencies contained in Appendix C regarding their research of the potential overlap sample articulate this.

Performance in Fiscal Productivity and Efficiency

Overall this is how the various programs compare to one another:

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Medicaid:						
Medical Assistance	2.14%	2,982,105,084	34,956,395	1.17%	28,757,248	0.96%
Mental Health	1.37%	388,311,853			5,307,926	1.37%
Developmental Disabilities	8.28%	414,552,926			34,319,985	8.28%
Aging & Adult Services	10.81%	869,022,884			93,964,328	10.81%
Total Medicaid	4.24%	4,653,992,747	34,956,395	0.75%	162,349,487	3.49%
Unemployment Compensation	2.67%	1,945,253,325	33,091,955	1.70%	18,756,292	0.96%
Department of Labor and Industries	9.19%	1,387,636,117	45,449,874	3.28%	82,107,804	5.92%
Food Stamps	9.70%	344,527,210			33,421,606	9.70%
Division of Vocational Rehabilitation	12.01%	39,092,943			4,694,907	12.01%
Basic Health Plan	4.40%	263,009,587	6,685,345	2.54%	4,895,859	1.86%
WorkFirst/TANF:						
Economic Services Administration	6.73%	699,707,785			47,101,202	6.73%
Employment Security Department	5.26%	38,481,243			2,025,329	5.26%
Community Trade & Economic Development	8.68%	18,657,294			1,619,214	8.68%
Total WorkFirst and TANF Combined	6.70%	756,846,322			50,745,745	6.70%
Total All Programs	5.08%	9,390,358,251	120,183,570	1.28%	356,971,699	3.80%

Agencies state they object to such a comparison because it is too simplistic and doesn't address the variability of complexity among the programs. However, it does present the overall picture of the amount spent on administration versus

direct services. Direct services in most cases include the state's staffing costs involved in distributing those services.

We noted that the state is making improvement in the use of automated technologies such as telephone centers, on-line claims and employer payment systems. Washington appears to be ahead in these areas compared with other states. The use of these technologies helps to control the administrative costs of each system.

Statewide Findings and Recommendations

There are a few areas in which the state can affect the cost and efficiency of the programs it operates. Essentially, it can change benefit structures, manage priorities and change systems to coordinate benefits.

- The Legislature can change benefit provisions and program design to be consistent with federal requirements or amend benefit provisions for state-funded programs. The state could be proactive in attempting to change federal laws and regulations to accomplish cost savings. The state has been active in this area, so we are unsure as to how much more the state can accomplish to improve the federal requirements for cost savings.

- The Governor can focus that office's performance monitoring on measures that yield the most program effectiveness in the most cost- effective manner. Alternatively, this function could be delegated to the state Office of Financial Management (OFM).

- The state could design a system whereby all information captured for any beneficiary in any state program is readily available to any other state program on a real-time basis. This will require more information sharing and easier access to information than the state now provides. While the typical state approach is to apply add-ons and fixes to existing systems, more integration, with systems designed for such information needs would yield better results. This may be difficult to accomplish given the separate nature of claims benefits management in different agencies. This leads us to our final point.

- Having pieces of an overall claims benefit system, managed with myriad specific requirements, and by myriad agencies using separately developed systems, inhibits the effective management of the state's resources. Organizational realignment was not a part of this project but we were asked if the state could start over, would the systems be the same. Our answer is no. If the state could start over there would be single systems or at least linked systems to manage all claims and benefits. Programs that are similar or support similar populations would be managed with central control, yet recognizing differences among similar programs.

  The organizational structure of the state does not promote an overall performance measurement design or information sharing among the various state agencies. State agencies do attempt to share data, but we found that had certain information been readily available, benefits would not have been provided. The state's structure has developed over a long period of time, with political interests sometimes driving design. There are questions

regarding structure that need to be asked. For example: Why do two separate state agencies provide vocational rehabilitation services? (One answer: because one is a federal program and one is a state-run program.) Why does the state process claims for people who have lost their job differently from those who are not working because of a job-related injury? (One answer: because one is a federal program and one is a state-run program.) The questions and answers to these types of questions are beyond the scope of this project but are worthwhile to consider.

The executive summary presents the highlights of this performance audit in terms of statewide issues. The following is a summary of the issues, findings and recommendations noted during the conduct of this project, some of which are presented in the program sections of this report.

- The state should better integrate the performance measurement and reporting systems. While generally the linkage between the state's three systems (performance agreements, scorecard and OFM performance reporting) is working well, we noted several instances in which they were not well linked. The state may be well served by a consolidated performance measurement system that incorporates performance agreements with frequent reporting. The state should consider whether OFM could change its role from a performance-reporting clearinghouse to a performance management integrator.

- The state could do a better job of focusing its performance measures on program or client outcomes. While workload and output measures are important, the lack of program effectiveness (or client outcome) measures prohibits an effective performance measurement system.

- Some agencies are focused on claim payment accuracy and use a variety of ways to determine appropriateness of payments. We found that all agencies that were part of this audit are involved in claims and benefits payments, but very few have payment accuracy as a performance measure.

Many other program-specific recommendations are made throughout this report. They are not repeated in this section but the following summarizes these recommendations. Also, the discussion of best practices below is a recommendation that the practices be considered by other agencies.

RECOMMENDATION	POTENTIAL AFFECT
WorkFirst (pg. 28):	
➢ Review alignment of state measures with federal measures.	➢ The state would be in a better position to compete for bonus awards.
➢ Develop measures for new categories of bonus awards.	➢ Tens of millions of additional funding is available to top performing states.
➢ Modify certain measures.	➢ Measures would be more informative for program results, but may carry additional data gathering costs.
➢ Integrate performance reporting in long-term systems planning.	➢ Reduces staff effort in compiling data but is not likely a direct cost saving.
Food Stamp Program (pg. 34):	
➢ Add federal outcome measures to performance management system.	➢ Enhanced funding is available to top performing states

RECOMMENDATION	POTENTIAL AFFECT
Medicaid (pg. 41):	
➢ Use more outcome measures.	➢ Potential cost savings if ineffective service providers were eliminated from the program. Best benefit is enhanced understanding of how services are effective.
➢ Better integration of three performance systems.	➢ Better focus on priorities but very little affect on staffing.
➢ Consolidate various audit and overpayment detection programs.	➢ This may create synergies that will result in more overpayments referred for collection.
Basic Health (pg. 47):	
➢ Develop measures that reflect the key business variables.	➢ Additional cost savings could be identified if all cost factors were included in a performance measure.
Unemployment Insurance (pg. 53):	
➢ More use of UI information by other agencies.	➢ This recommendation comes at a potential cost to ESD, but other programs would benefit. Even a ½ of 1 percent error detection in economic assistance programs would yield $5 million of program savings.
Workers' Compensation (pg. 59):	
➢ Measure overall time-loss duration.	➢ Time-loss duration is one factor in program costs. Shortening duration overall would reduce benefit costs.
➢ Measure decision timeliness.	➢ Reducing the time it takes to make decisions would reduce costs for the state, employers and injured workers. However, reducing the complexity of laws and regulation would be required.
➢ Elevate certain operational measures to the Scorecard.	➢ Better focus on priorities but very little affect on staffing.
➢ Identify targets for measures.	➢ Better focus on priorities but very little affect on staffing.
➢ Use participant outcome measures.	➢ This may increase costs in data gathering but potential cost savings if ineffective service providers were eliminated from the program. Program effectiveness would improve.
DSHS Vocational Rehabilitation (pg. 66):	
➢ Measure long-term success.	➢ Potential cost savings if ineffective service providers were eliminated from the program. Best benefit is enhanced understanding of how services are effective.
➢ Management target for staffing	➢ Goal is to minimize potential loss of funds and avoid sanctions.

Best Practices

There are several management practices noted in this report that we believe are beneficial for other agencies to consider. The following summarizes these practices from the program sections.

There are a few management practices applied in WorkFirst that are noteworthy. In addition to the clear expectations for outcomes defined by the Legislature and Governor, the process of supporting overall program measures with management-level measures is a good practice. This practice is not unique to WorkFirst. What is unique, however, is that the measures are shared and are consistent among several organizational structures (i.e. agencies that administer the program). The choice to manage WorkFirst as a partnership of different state agencies caused an additional layer of complexity in designing the system. The increased need for interdepartmental cooperation, communication and information sharing seems to be adequately addressed by the use of cross-cutting management groups focused on policy and operational matters. This potential problem in coordination was also aided by the decision to co-locate services in the state.

There are two aspects of the Food Stamp Program that we consider "best management practices".

- The Governor established a renewed emphasis on quality with quantifiable, measurable targets for performance. This was supported by investments in process improvement activities. The result was a dramatic decline in error rates in a short period of time. This illustrates the power of a chief executive's involvement and support for quality improvement initiatives and performance measurement.

- The quality assurance review process monitors quality on a consistent basis throughout the year. The results are provided on a monthly basis and a team of state staff composed of evaluators, field staff, policy staff, automation, and management reviews the results to determine process improvements needed. This information is provided back to all field offices. Ongoing evaluation with timely feedback to those that can affect the process is a management practice that should be considered by others in the state. Through its State Exchange Program, the Food Nutrition Service (FNS), has authorized several states to visit Washington State and view this process.

We found two management practices used in the Medicaid program that were noteworthy:

- Even though outcome-based performance measures are not supported by federal guidance, MAA has developed measures that address how the programs affect the quality of life for participants.

- While fraud and overpayment detection are required by federal regulations, it wasn't until performance measures were developed with recovery and cost avoidance targets, that substantial improvements were made. This approach could prove useful to the other programs included in this project.

We believe two management practices employed by the Basic Health Plan (BHP) are noteworthy:

- While BHP has responded, similar to other agencies, in developing system add-ons to its main information systems to track performance results, it has done so in a less labor-intensive manner.

- BHP has done a commendable job in anticipating operational effects from changes in its performance measures. For example, BHP has instituted a more rigorous re-certification process for 2003. It has anticipated the increase in dropped enrollments and developed measures to help manage those volumes and manage the increased volumes of re-certifications in the appeal process.

ESD has several management practices that are noteworthy:

- ESD has by far the most organized business planning processes of any of the agencies in this project. The process links strategic initiatives to performance measures in a very direct manner. Performance measures that are so directly linked to strategic initiatives drive better performance management.

- As required by federal requirements, ESD uses sound methodologies to detect payments to ineligible people. ESD was best at using computer-assisted matching techniques in determining potential overpayments. It is this availability of information that leads to the recommendation, noted above, that other agencies routinely access ESD's information.

- ESD has moved to a telephone-center operation whereby initial benefit intakes and weekly claims reporting are conducted in a more automated environment. This allows for less labor-intensive processing and uses fewer staff to accomplish the same level of processing than an office-based mode of operation. Information from ESD suggests that this move has lowered the cost of operating this function.

L&I uses certain management practices that are noteworthy:

- More than most of the other agencies reviewed in this project, L&I has integrated its operational performance measures into its main processing systems. The system used to communicate the results on a timely basis to management appears to be less labor-intensive than other programs. Management receives this information and frequently addresses actions it should take in light of the results.

- L&I recently has become very aggressive in its fraud detection and quality assurance functions. The change in approach had yielded significant benefits. There are a few other agencies that are also aggressively pursuing these functions, but many could use this department's example to investigate how their programs could benefit from this focus in purpose.

DVR has some management practices that are noteworthy:

- DVR uses a strategic planning process that incorporates goals and objectives of its primary programs within the context of the DSHS mission and strategic themes. This process is useful in defining performance goals and measures to address federal and state program objectives within external and internal constraints. The linkage of performance measures to strategic initiatives is better than we found in most other programs.

- While many of the Executive Management Information System measures are consistent with the federal program measures, many can be considered "feeder" measures in that accomplishing those targets helps to accomplish the broader outcome measures. This is a very good management practice. Establishing operational management measures with aggressive targets assists the Division in managing results to targets on a day-to-day basis. Aggressive target-setting allows overall goals to be accomplished even though individual internal targets may not be met. We believe DVR has set a "higher bar" for performance expectations than the other programs and should be commended for doing so.

ECONOMIC ASSISTANCE PROGRAMS

Washington's WorkFirst Program

Program Objectives

The WorkFirst program is an example of how legislative direction can enhance program outcomes. Congress established clear objectives for program outcomes in its 1996 welfare reform legislation. The 1997 Washington State Legislature clarified expected outcomes from the program administered in Washington State.

Federal Objectives: The objectives of the federal, state and tribal Temporary Assistance For Needy Families (TANF) programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives. The programs are designed to end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; to prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and to encourage the formation and maintenance of two-parent families.

State Objectives: State objectives for WorkFirst are focused on obtaining paid, unsubsidized employment for qualified individuals. The departments administering WorkFirst are to collaborate with employers, educational institutions, labor councils and other community resources to develop effective work and job training programs. In addition to job training, emergency assistance may be provided to families in areas such as childcare, housing assistance, transportation expenses, food, medical costs, and employment related expenses.

Results

The WorkFirst program is achieving Washington state legislative objectives. WorkFirst is designed to manage and report performance in terms of caseload reduction and employment outcomes. As a result, WorkFirst is also achieving the assistance and employment-related objectives established by Congress. The program is meeting four out of seven of its internal performance goals.

However, certain regulatory objectives established by the Administration for Children and Families in the U.S. Department of Health and Human Services for the TANF program do not have corresponding state measures. Potential financial incentives will be lost if the state fails to achieve high performance in these other areas. The other federal TANF performance measures that are listed in Appendix D need to be addressed by developing corresponding state measures. This may require a TANF overlay to the WorkFirst program measures. Each year, the federal government grants a total of $200 million in bonus awards to states. The 2000 awards based upon 1999 performance were allocated to the four measures as follows:

BONUS CATEGORY	AMOUNT OF AWARD
Performance	
Job Entry	$55,108,432
Success in the Work Force	$60,371,486
Improvement	
Job Entry	$48,297,189
Success in the Work Force	$36,222,892

States are awarded a performance bonus based on two measures, the "job entry rate and increases in the rate" and "success in the workforce." The "success" measure is a combination of the measures of job retention and increase in earnings. Since Washington did not place in the top 10 (based on 1999 results) for these measures, the state was not awarded a performance bonus in 2000. The 2000 awards ranged from $1.1 million to $36 million. The state did receive a $13.7 million award in 2001 for ranking sixth in improvements in the Success in the Workforce measure. The 2001 awards ranged from $0.4 million to $41.7 million.

Washington ranked 15th and 18th nationally for the Success in the Workforce measure in 2000 and 1999, respectively. This means that Washington is doing a good job of having WorkFirst participants retain employment and increase earnings. However, Washington ranked 41st and 36th nationally for the job entry measure in 2000 and 1999, respectively. This means that they are not doing as well as most other states in finding employment for WorkFirst participants.

In summary, the ability to perform within these measures can have a direct financial effect on the program's funding. Of concern is the apparent lack of certain other performance measures that carry financial incentives this year (2002). We have offered a recommendation that the state determine how it will respond to these other measures.

Program Performance Measures

WorkFirst performance measures are focused in the areas that will drive the proper management of activities. Focusing on employment outcomes and post-employment success has positively affected TANF participants as well as the financial structure of the program. Overall program performance measures are supported by related management performance objectives.

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated in Table 1.1. The federal performance measures focus on the outcomes of clients in the TANF program. The state measures appear to be more narrowly focused on the WorkFirst activities.

WorkFirst uses a three-tier performance measurement system. The first tier covers the activities conducted by all of the partner agencies (DSHS, ESD and DCTED are included in the scope of this audit). The following are the first tier measures with current targets and results provided parenthetically.

(1) Caseload: Measures the success at reducing the number of families dependent on public assistance. (Target: 54,763 cases. Actual: 51,907)

(2) Long-term exits from welfare: Measures the success at helping families to stay off welfare. (Target: 58.7 percent of July 2001 exits off TANF for 12 consecutive months. Actual: 56.6 percent)

(3) Jobs leading to exit from TANF: Measures the success at helping WorkFirst clients find unsubsidized jobs that allow them to leave welfare. (Target: 29.6 percent employed and left TANF within six months. Actual: 29.6 percent)

(4) Child support paid: Measures the success at increasing the incomes of families who are on or recently off public assistance, and increasing the percentage of families who remain self-sufficient. (Target: 33.4 percent of recent cases received at least one payment. Actual: 34 percent)

(5) Alternative assistance for applicants: Measures the success at identifying alternative sources of assistance for families so that a TANF grant is unnecessary. (Target: 82.8 percent of applicants who withdrew TANF application received alternative assistance. Actual: 84 percent)

(6) Percent remaining employed: Measures the success at improving the capability of adults leaving public assistance to stay employed and increasing the percentage of families who remain self-sufficient. (Target: 55.8 percent of cases that left TANF earned at least $2500 per quarter for four quarters. Actual: 53 percent)

(7) Percent increasing earnings: Measures the success in helping families increase their income after leaving welfare, and again, increasing the percentage of families who remain self-sufficient. (Target: 37.6 percent of cases that left TANF increase earnings by 10 percent after one year. Actual: 37.7 percent)

As is noted parenthetically, the program is meeting four out of seven of its performance targets. We believe these overall program measures, directed at case reductions and successful employment outcomes are valid and support expected levels of performance for this program. In connection with our review of systems used to report this information, we learned that the alternative assistance for applicants measure (both target and actual) was going to be revised downward by approximately 20 percent due to errors discovered in the data accumulation process. This means that approximately 65 percent of applicants who withdrew an application received alternative assistance instead of the previously reported 84 percent. We don't expect that this change in measure reporting would change any related program activities.

TABLE 1.1 TANF/WORKFIRST GOALS AND MEASURES (Parenthetical numbers correspond to the goal or measure noted on pg. 23)

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Performance Measures
Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives	Medicaid/SCHIP enrollment rate of former recipients and increases in the rate		MAA has goal of increasing enrollment of children in medical assistance programs
	Food Stamp participation rate of low-income working households with children and increases in the rate	Diversion assistance	(5) Increase the percentage of families who apply for TANF, who are eligible, but for whom TANF becomes unnecessary when alternative sources of support are identified
End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage		Reduce welfare caseload by 20% within four years	(1) Reduce the number of Washington families that are dependent on public assistance
	Job entry rate and increases in the rate		(3) Increase the number of clients moving from WorkFirst to employment to self-sufficiency
	Job retention rate and increases in the rate	Help people become and stay employed	(2) Increase the percentage of families who remain self-sufficient after leaving TANF
			(6) Improve the capability of adults who leave welfare for work to remain employed
	Earnings gain rate and increases in the rate	Raise the earnings of clients	(7) Increase the earnings of former TANF recipients
	Performance in payment of child-care subsidies	Diversion assistance	(4) Increase incomes of families who are or were receiving public assistance with the child support due from non-custodial parents
Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies	Increase in the family formation and stability		DSHS has a goal to reduce unintended pregnancies among women receiving Medical Assistance (MAA ties it to TANF)
Encourage the formation and maintenance of two-parent families	Increase in the family formation and stability	Do a better job than the old welfare program (AFDC)	Not directly measured

As indicated in the analysis above, WorkFirst performance measures (those numbered) line up very well with federal and state legislative goals and the federal performance measures developed by the Administration for Children and Families in the U.S. Department of Health and Human Services. However, we noted several exceptions to this general assessment (See Appendix D). The WorkFirst program should review the measures it has selected in comparison to federal measures and determine whether alignment of state measures to federal measures could be improved.

Of interest is that until 2002, the federal government had not developed financial incentives for all of its legislative goals and performance measures. Of the seven federal performance measures, only three have been used to award monetary benefits. As discussed in detail in Appendix D, this is changing in 2002 in that participation in Food Stamps and Medicaid will be measured for bonus awards. Also to be measured for awards are performance in childcare subsidies and family formation and stability. The state should consider how it will measure performance in these areas and how it intends to compete for these bonuses. The agencies have indicated that Washington State follows the federal procedures and expresses its interest to compete for all of these awards every year. The agencies have further indicated that the federal government then uses existing data and reports to determine which states will receive awards. However, since these federal measures are not integrated into the state's measures (see Table 1.1), we are concerned that these measures will not receive adequate attention.

Performance Reporting and Management Control Systems

There is no single WorkFirst system used to report performance. Rather, information is collected from a variety of state systems. These systems were not designed to support performance measure reporting as they were developed before performance measures were widely used by the state. As a result, a structure of various system query procedures is followed to provide usable information for reporting results to agency management, the Legislature, Governor, federal government and other interested parties. While not the most efficient and reliable approach, the state has made the necessary adjustments to enable reporting in a reasonably reliable manner. From a long-term perspective, the state should consider including integrated information needs in its strategic systems planning efforts.

Similarly, there is no single system of internal controls over the information reported by the WorkFirst program.

WorkFirst uses a three-tier performance measurement system. The first tier measures, previously discussed, cover the activities conducted by all of the partner agencies (DSHS, ESD and DCTED are included in the scope of this audit, the State Board for Community and Technical Colleges is not).

The program partners use common systems to manage a majority of program activities. The two major systems used are the Automated Client Eligibility System (ACES) for eligibility and the Job Automated System (JAS) for managing participant activities. The Division of Child Support (DCS) in DSHS uses the Support Enforcement Management System (SEMS) to capture information related to child support payments. Other systems are also used.

The following are the second tier, or feeder measures used to manage the achievement of the first tier measures and the systems used to manage and report results of these measures. The relationship between first and second tier measures is that first tier measures focus mainly on participant outcomes while second tier measures focus mainly on operational activities necessary to accomplish the participant outcomes.

WorkFirst Measure	July 2002 Targets	System
Adult Caseload	34,991	ACES
Movement from Job Search to Work	38.7%	JAS
High-Wage Placements	$8.81	Unemployment Insurance (UI) Wage/ACES
Customized Job Skills Training Placements	75%	SBCTC/UI Wage
Community Jobs Placements	56.4%	DCTED/UI Wage
Workplace Labor Exchange (WPLEX) Real Contacts	24.5%	JAS
Customer Accountability	33.8%	JAS

As is indicated above, the information supporting these measures is captured in a variety of state information systems. Some of these systems share data with other agencies but systems generally are not integrated. Most of these systems were not designed to support performance measures, but rather are designed to support financial and program administrative needs. Each information system uses internal controls directed at transaction validity and accuracy and these systems are generally subject to internal and external audits. As a result, our approach to determining measure reliability focused on the processes used to convert data from these systems to the measure results.

Of special note is the customer accountability measure. The result of this measure is provided by JAS and is available on the state's website. This measure indicates that fewer than 40 percent of clients who are required to participate in work activities are actually participating on a full time basis (at least 32 hours per week). However, this measure is somewhat misleading in that certain clients are not participating for valid reasons. JAS generates the customer accountability measure that tracks this information for each Community Service Office (CSO) but does not provide a summary report of the status categories on a statewide basis. As such, we are unable to provide any conclusions about the success of engaging clients in required activities.

Management control systems used for WorkFirst can be found in each of the three agencies that administer this program. DSHS maintains a central Internal Audit function. ESA manages ACES and JAS using a quality assurance function to perform management evaluations of its customer service offices. However the management evaluations used for WorkFirst are not as rigorous as those used in the Food Stamp Program. The Workforce Investment Team works on quality control and continuous improvement initiatives. ESD uses an internal audit

function for system integrity and internal control monitoring. While DCTED does not have an internal audit function, its program managers involved in WorkFirst programs use a variety of quality assurance procedures.

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from DSHS for WorkFirst as well as TANF. We also obtained similar information from ESD and DCTED regarding their portion of the WorkFirst program. Using the departments' existing definitions of direct services and administrative costs, the following chart indicates the administrative cost efficiency of this program.

WorkFirst/TANF:	Administration Costs %	Benefit Costs	Administration Costs
Economic Services Administration (DSHS)	6.73%	$ 699,707,785	$ 47,101,202
Employment Security Department	5.26%	38,481,243	2,025,329
Community Trade & Economic Development	8.68%	18,657,294	1,619,214
Total WorkFirst and TANF Combined	6.70%	$ 756,846,322	$ 50,745,745

The benefits include direct assistance to clients as well as services and case management activities to conduct the program. As such, this analysis does not measure the fiscal productivity of direct services (e.g. case management productivity). The overall administrative cost percentage of 6.7 compares favorably to other programs within the state that use a case management approach to service delivery.

In order to determine how efficient this program is in comparison to other states, we obtained TANF fiscal information from the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services for the federal fiscal year ended September 30, 2000. While this is not a perfect comparison because information is from a different time period, ACF tracks only the federal portion of the program and uses different categorization of costs for presenting financial information, it is still useful. The results of this comparison are presented in the following chart. Washington's administrative cost efficiency is significantly better than the national average, ranking 13th out of 50 states. In comparison to peer states (see Results Section and Appendix C regarding peer states), Washington is average, ranking third out of six states.

	Administration Costs %	Total Federal Expenditures	Administration Costs	Washington's Rank
Washington	8.74%	258,845,308	22,616,732	
Average of Peer States	8.34%	207,757,654	17,327,612	3 out of 6
National Average	12.06%	249,663,458	30,113,722	13 out of 50

Whether comparing internally to other state programs or externally to national averages or peer states, the Washington program is performing fairly well in terms of fiscal productivity and cost efficiency.

Recommendations

- The WorkFirst program should review the measures that have been selected in comparison to federal measures and determine whether the alignment of state measures to federal measures could be improved.

- The state should consider how it will measure performance in the new areas for bonus awards and how it intends to compete for additional funding available through the bonus award process. We understand that Washington State does intend to compete for these awards. However, the inclusion of these additional measures in the state's first tier measures would enhance success in receiving bonus awards.

- The performance measures used by the program appear to be working for those involved, and the effort needed to obtain the necessary data from agency's systems is significant. However, we offer the following for consideration.

  - The child support measure reports the percentage of cases that received a payment in the current month, without regard to the amount of the payment. A more meaningful measure of success would compare the actual amount received in child support payments to what should have been received for the current month.

  - The percent remaining employed measure is designed to report success at achieving self-sufficiency. We take issue with the target of $2,500 for two reasons: it is less than the state's minimum wage for full-time employment, and it doesn't account for the wide cost-of-living variations among locations within the state. There is a similar issue with the increasing earnings by 10 percent measure. Depending on the starting point and whether self-sufficiency was achieved, the results may not measure the achievement of self-sufficiency. This recommendation does not address that part-time work is an improvement or meeting a target when the individual is at least working. We believe a meaningful measure could be developed that incorporates this consideration.

- The state should consider including integrated information needs for supporting performance management in its strategic systems planning efforts.

Management Practices

There are a few management practices applied in WorkFirst that are noteworthy. In addition to the clear expectations for outcomes defined by the Legislature and Governor, the process of supporting overall program measures with management level measures is a good practice. This practice is not unique to WorkFirst. What is unique, however, is that the measures are shared and are consistent among different organizational structures (i.e. agencies that administer the program). The choice to manage WorkFirst as a partnership of different state agencies caused an additional layer of complexity in designing the

system. The increased need for interdepartmental cooperation, communication and information sharing seems to be adequately addressed by the use of cross-cutting management groups focused on policy and operational matters. This potential problem in coordination was also aided by the decision to co-locate services in the state.

Washington's Food Stamp Program

Program Objectives

The state's Food Stamp Program is a good illustration of how the nature of federal objectives drive performance management activities. In contrast to WorkFirst, the federal performance measures focus on the payment process and not on participant outcomes. The Food Stamp Program has recently changed its name to Basic Food. We have referred to this program as the Food Stamp Program in this report for consistency with the federal program.

Federal Objectives: The objective of the Food Stamp Program is to help eligible low-income households buy nutritious food. The federal government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses states for 50 percent of the costs of administering the program. State welfare agencies certify eligibility and provide benefits to households.

Currently, a state may receive rewards or penalties based on its error rate. The state's administrative funding rate can be enhanced through a reward for low error rates or reduced through a penalty for high error rates. This penalty can be directly repaid to the federal government, or subject to approval by the federal agency, be reinvested in activities designed to reduce errors. There is a specific federal requirement for corrective action by any state with an error rate above 6 percent.

State Objectives: The state Legislature authorizes the Department to establish a Food Stamp Program in accordance with federal laws, regulations and rules.

Results

After steadily deteriorating error rates from 1995 to 1997, when payments made in error approached 16 percent and when financial penalties were assessed, the Governor established clear targets for performance. This clear direction from the Governor, along with the federal government's agreement to allow Washington to reinvest its financial penalties in system improvements, has enabled the program to steadily improve the error rate since the beginning of 1998 to its current payment error rate between 8 percent and 9 percent. A chart in Appendix E shows the improvement made.

The federal government measures the payment error rate and the negative error rate. The payment error rate is determined on a sample basis and compares the amount paid to what should have been paid. It includes both overpayments and underpayments. The negative error rate measures the errors made in denying benefits to eligible people. The results of these measures for the federal fiscal year ended September 30, 2001 in comparison to national averages are as follows:

PERFORMANCE MEASURES	WA	Rank	National Average	% Better (Worse)
Payment Error Rate	8.53	34	8.66	1.52
Negative (Denial) Error Rate	8.59	40	8.3	(3.38)

Compared to national averages, Washington's Food Stamp Program performs better for payment error rate but worse for the negative error rate. However, its ranking among the states is in the lower third of all states.

This is confirmed by a comparison to peer states as follows:

Peer States Comparisons	Washington	Average of Peer States
Payment Error Rate	8.53	9.688
Negative Error Rate	8.59	7.64

Three of the five peer states incurred liabilities related to their performance, while Washington did not. While two of the peer states performed better than Washington, no peer state received enhanced funding for the federal fiscal year ended September 30, 2001. If the state were to achieve a low error rate that would place it within the best 10 states, it would receive enhanced funding. The additional funding awarded to the best 10 states in 2001 totaled $51.8 million and ranged from $0.5 million (Rhode Island) to $29.9 million (Texas).

As noted under WorkFirst, a federal TANF measure is in place regarding Food Stamp participation rates. The Food Nutrition service (FNS) has incorporated a performance measure in its strategic plan related to participation rates of eligible people. While participation is not incorporated into the state's performance measurement system, the federal trend to incorporate Food Stamp participation rates into performance measures indicates that this measure should be addressed by the state. FNS has published a study of participation rates in 1999 and changes in the rate since 1994. The following chart reflects the relative performance of Washington to national rankings and the average of the peer states.

Peer States Comparisons	Washington	Average
Participation in 1999	57%	57%
National Rank	27	28
Improvement since 1994	-21%	-18%
National Rank	40	32

Washington, as well as the average of peer states, ranks in the middle of all states in its 1999 participation rates. Almost all of the states showed a decline in participation rates from 1994 to 1999. Washington was in the lowest quartile, but was not significantly lower in participation than the average of the peer states. A more recent measure regarding the number of households participating in the Food Stamp Program indicated that Washington increased its participation as measured by number of households by 16.4 percent from July 2001 to July 2002. This is substantially higher than the national average of a 10.1 percent increase and places Washington in 10th place. Among the six peer states, Washington ranks third for this measure.

Performance Measures

Measuring Food Stamp Program participants' outcomes as they relate to participants' health would be extremely challenging because determining the extent to which food provided under this program affected the health of participants is difficult. As a result, the federal objectives have historically focused on measuring the accuracy of the process used to provide benefits. The federal program measures how accurately eligibility and benefit amounts are determined (the error rate) and the accuracy of eligibility determinations for those excluded (denied) from the program (the negative error rate). These measures are valid to determine the effectiveness of the process and will continue under the new FNS guidelines.

The Food Stamp Program focuses its performance measures on the federally mandated error rate of claim payment accuracy as is show in Table 2.1.

TABLE 2.1 FOOD STAMP PROGRAM GOALS AND MEASURES

FOOD STAMPS			
Federal Legislative Goals	**Federal Performance Measures**	**State Legislative Goals**	**State Performance Measures**
The objective of the Food Stamp Program is to help low-income households increase food purchasing power for a more nutritious diet.	Accuracy of eligibility and benefit amount determination both underpayment and overpayment	The state Legislature authorizes the department to establish a food stamp program in accordance with federal laws, regulations, and rules	Accuracy of eligibility and benefit amount determination both underpayment and overpayment
	Correctness of decisions to deny, terminate, or suspend benefits		Correctness of decisions to deny, terminate, or suspend benefits

FNS, however, is moving to more outcome-based measures using the Food Security Measurement Project administered as part of the Current Population Survey, a review of participants' economic situations. In addition, FNS is measuring the participation rates of eligible people in the Food Stamp Program with the goal of increasing participation from the baseline of 63 percent in 1997 to 68 percent in 2005. The participation rate in the TANF program carries financial incentives for top performance.

Beginning in federal fiscal year 2003 (which started October 1, 2002), FNS has decided to replace its current system of enhanced funding based strictly on a state's payment accuracy rate and negative rate. Bonuses will be paid to states with the highest (or most improved) payment accuracy rates and negative rates, states with the highest (or most improved) participation rates, and states with the highest percentage of cases processed in a timely manner. FNS is working to identify performance measures that will be used in federal fiscal year 2004 and beyond and is adjusting its data collection to include these measures. FNS has indicated these measures will be evaluated in 2004 and may change. The state needs to ensure that its internal performance measures accurately incorporate the national measures.

While the state's performance measures for the Food Stamp Program are valid and appropriate for current program design, they are likely to be insufficient

under future program expectations. The state should consider how to add Food Stamp outcome measures to the overall state performance reporting structure.

Performance Reporting and Management Control Systems

Performance is measured and reported by the federal government. The state has established a monitoring program under federal mandates that is highly productive in determining error rates and the underlying causes. The federal government re-audits on a sample basis the state's monitoring program, and the results are factored into the overall error rate measure. This brings a high degree of checks and balances to the error rate reporting process.

Eligibility for food stamps is based primarily on income and other resources. Although welfare reform increases state design options that can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits. Benefit amounts vary by household size and income.

The application process includes completing and filing an application form, being interviewed and having certain information verified through phone calls to employers, landlords, etc. In addition to using information supplied by the recipients, state agencies use data from other agencies, such as the Social Security Administration, the Internal Revenue Service and the Employment Security Department to verify the household's identity and income. The state of Washington has a number of automated cross-matches with other state and federal agencies that provide current information on clients.

To ensure compliance with the law, program regulations, and its own operating plans, each state is required to have a system for monitoring and improving administration of the Food Stamp Program, particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management reviews, quality control, case reviews and reporting to the FNS on program performance.

The state's Food Stamp Program maintains an extensive quality control system required by federal law and regulation. The system provides state and national measures of the accuracy of eligibility and benefit amount determination (often referred to as payment accuracy), both underpayment and overpayment, and of the correctness of decisions to deny, terminate or suspend benefits.

The state is required to select a statistically valid sample of cases and to review that sample for eligibility and benefit amount. The state randomly selects approximately 1,200 cases throughout the year. The state submits findings on all sampled cases, including incomplete and not-subject-to-review cases, to an automated database maintained by the federal government. State quality control data allow a state to be aware on an ongoing basis of its level of accuracy, and allow for the identification of trends and appropriate corrective action. State data is reviewed by FNS, which re-samples approximately 40 percent of the state's sample to provide feedback on quality control systems and to determine payment error rates.

The state provides an additional step in its quality control process that is not required by FNS. It provides feedback to the field staff through monthly meetings to review the results of the each payment error and negative error identified

during the review. This allows field staff to react quickly to trends established by the monthly reviews.

Management evaluations are required by federal regulation and are separate from the quality control case reviews. Based upon criteria established each year by FNS, state reviewers determine compliance with these criteria in selected offices. In addition to payment accuracy and overall program compliance, reviewers also evaluate the offices' compliance with fair hearing and civil rights requirements, customer service and access to the office, claims processing, and adequacy of posters and other public displays that explain the program.

Performance in Fiscal Productivity and Efficiency

The federal government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses states for 50 percent of the costs of administering the program. This structure is somewhat unique among the various programs included in the scope of this audit and is likely a major factor in the administrative cost percentage of 10 percent being somewhat higher than other state programs. The Food Stamp Program does have higher administrative costs when the federal requirement for quality control that is not present in other programs is considered. Administrative costs in relation to benefit payments for other states were not available for comparison purposes.

Recommendation

The state should consider adding Food Stamp outcome measures that reflect current FNS outcome measures to the overall state performance reporting structure.

Management Practices

There are two aspects of the Food Stamp Program that we consider "best management practices".

- The Governor established a renewed emphasis on quality with quantifiable, measurable targets for performance. This was supported by investments in improving processes to reduce the error rates. The result was a dramatic decline in error rates in a short period of time. This illustrates the power of a chief executive's involvement and support for quality improvement initiatives and performance measurement.

- DSHS' quality assurance review process monitors quality on a consistent basis throughout the year. The results are provided monthly and a team composed of evaluators, field staff, policy staff, information technology staff, and management reviews the results to determine process improvements needed. This information is provided back to all field offices. Ongoing evaluations with timely feedback to those who can affect the process is a management practice that should be considered by other state agencies. Through its State Exchange Program, FNS has authorized several states to visit Washington State and view this process.

MEDICAL ASSISTANCE PROGRAMS

Washington's Medicaid Program

Medicaid funding is used to support many different programs in state agencies and local governments. This audit focuses on certain large Medicaid programs administered by DSHS and does not include smaller DSHS programs, other state agency programs or any local government programs.

Program Objectives

The regulatory environment in which the DSHS' Medical Assistance Administration (MAA) operates is not conducive to effective performance measurement systems. The federal agency that oversees Medicaid does not measure program outcomes, but focuses on access to the program. In comparison to other federal programs, Medicaid uses performance measures sparingly. Yet MAA has developed a series of performance measures that address the few federal and state program objectives and uses additional measures that address participant outcomes and certain TANF program objectives. Since federal and state legislative objectives concentrate mainly on access to care, the Washington Medicaid program is achieving its objectives.

Federal Objectives: The objective of the Medical Assistance Program (Medicaid) is to provide medical assistance payments on behalf of eligible low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. Within federal rules, each state decides eligible groups, types and range of services, payment levels for services, and administrative and operating procedures.

State Objectives: The state requires its departments and agencies to administer the programs in accordance with federal laws as is necessary to qualify for federal funds for medical assistance, temporary assistance to needy families, child welfare services, and any other public assistance program for which federal grants or funds are made.

Results

Since we found no comparative performance results on a national basis, the evaluation of results is limited to whether internal targets are met. Details of the performance measures and the results are contained in Appendix F. We found inconsistent treatment of measures and reported results among the three performance reporting systems used. In some cases different measures were used and in other cases the reported results were not the same. Depending on the reporting system used, MAA either achieved some or most of its targets for performance.

While MAA has developed outcome measures for its Medicaid program, some of the other DSHS programs using Medicaid funds have not. Specifically, the Divisions of Mental Health and Developmental Disabilities use client access or

staff workload measures. However, the one measure that the Aging & Adult Services Administration reports in the overall DSHS scorecard is mostly an outcome measure. We are recommending that these divisions consider using outcome measures to provide a more balanced performance measurement system.

Program Performance Measures

MAA is using measures that indicate performance in managing to program objectives. As previously stated, other DSHS divisions that operate programs, funded in part by Medicaid, could enhance their performance measurement system by adding participant outcome measures.

MAA is responsible for managing the state's Medicaid program, but many different programs within DSHS provide services to those eligible for Medicaid as the following chart (federal portion of assistance only, during the state's fiscal year ended June 30, 2002) indicates.

Administration/Division	TITLE XIX	Percentage
Children's Administration	$31,095,881	1.28%
Juvenile Rehabilitation Administration	4,281,641	0.18%
Division of Mental Health	220,794,160	9.10%
Division of Developmental Disabilities	250,195,135	10.31%
Aging & Adult Services Administration	474,434,109	19.56%
Economic Services Administration	42,816,201	1.77%
Division of Alcohol and Substance Abuse	10,969,240	0.45%
Medical Assistance Administration	1,390,902,490	57.35%
	$2,425,488,857	100%

This performance audit focuses on the four programs that account for 96 percent of the funding received. DSHS is responsible for administration of the state's Medicaid program and MAA manages the medical assistance program. As noted above, Medicaid services are also delivered through the Divisions of Mental Health (MHD), Developmental Disabilities (DDD) and the Aging & Adult Services Administration (AASA).

The linkage between federal and state Medicaid program objectives and related performance measures, discussed below, is illustrated in Table 3.1. The measures used by the other divisions are provided in Appendix F.

MAA measures various Medicaid outcomes and access statistics as follows (targets are indicated parenthetically):

- Average monthly enrollment of children in Medical Assistance programs (535,000).
- Increase percentage of children receiving Early Periodic Screening Diagnosis Testing (EPSDT) screen within 30 days.
- Increase immunization rate for two-year-olds enrolled in Medicaid health plans (58 percent).

- Reduce infant mortality rate among low-income families with Medicaid coverage. (6.9 per 1,000 births).
- Reduce percentage of unintended pregnancies among women participating in TANF (60 percent).
- Reduce rate of late or no prenatal care for pregnant women in Medicaid health plans (5.2 percent).
- Increase percentage of all provider claims adjudicated within 30 calendar days of receipt.
- Achieve medical assistance cost containment and utilization savings ($29.8 million).
- Increase grant costs avoided by Fraud Early Detection investigations (FRED) ($6 million).

MAA has other measures related to customer service and program management. Such measures include fee for service and Healthy Options (the name of the state's Medicaid managed care program) provider network adequacy, increase in enrollment in Take Charge and Medicaid Buy-in programs and customer satisfaction survey results.

In contrast to federal legislation for the TANF program, Medicaid legislation reflects its nature as an entitlement program that provides medical assistance payments on behalf of low-income persons, the categorically needy and the medically needy. Participant outcomes or other program expectations are not clearly articulated in federal legislation. The Center for Medicare and Medicaid Services (CMS) in the U.S. Department of Health and Human Services has not developed performance measures to the same extent as other programs discussed in this report. Other than the immunization rate for young children, CMS focuses on client access and general processing accuracy goals. We found no federal financial incentives or penalties for performance. However, there are federal program requirements. If these requirements are not met, the federal funds spent have to be returned. Furthermore, CMS and the federal Office of Inspector General (OIG) frequently perform both financial and program reviews to determine if services are delivered within federal guidelines.

Similar to Food Stamps, the Washington Legislature's stated goal is to administer the programs to qualify for federal funding. In addition, budget language sets additional goals regarding cost containment and the Medicaid buy-in program for working persons with disabilities.

In summary, the regulatory environment in which MAA operates is not conducive to effective performance measurement systems. Yet MAA has developed a series of performance measures that comprehensively address the federal and state program objectives and additional measures that address participant outcomes and certain TANF program objectives.

TABLE 3.1 MEDICAID GOALS AND MEASURES

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
		Reduce General Fund health care costs by 3%	Achieve Medical Assistance cost containment & utilization savings
Provide health care to (see below):	Improve access to care for elderly & disabled Medicare beneficiaries who do not have public or private supplemental insurance	Implement "Ticket to Work" Medicaid buy-in program	Increase the number of working disabled persons purchasing coverage through Medicaid Buy-in program
Recipients of income maintenance payments	Increase the percentage of Medicaid 2-year old children who are fully immunized	DSHS is authorized to comply with the federal requirements for the medical assistance program provided in the Social Security Act and particularly Title XIX of Public Law (89-97) in order to secure federal matching funds for such program.	Increase the immunization rate for two-year-olds in Medicaid health plans
Categorically needy	Provide states linked Medicare and Medicaid data files for dually eligible beneficiaries		Increase enrollment of children in Medical Assistance programs
Medically needy	Assist states in conducting Medicaid payment accuracy studies for the purpose of measuring and reducing Medicaid payment error rates		Increase percentage of all provider claims adjudicated within 30 calendar days of receipt
	Improve health care quality across Medicaid and SCHIP through the Center for Medicare and Medicaid Services (CMS)/state performance measurement partnership project		Reduce infant mortality rate among low-income families in Medicaid. Also reduce death rate among African American and American-Indian infants
			Reduce rate of late or no prenatal care for pregnant women in Medicaid
			Reduce unintended pregnancies among women receiving Medical Assistance (MAA ties it to TANF)
			Increase grant costs avoided by FRED investigations

Performance Reporting and Management Control Systems

The information used to generate performance reporting for MAA is obtained from a variety of sources as is discussed in Appendix F.

The information for AASA's measure is obtained from two major systems within DSHS. These long-term care client records are drawn from Social Services Payment System (SSPS) authorization files and the Medicaid Management Information System (MMIS) payments. They represent the number of persons who receive care in homes (not nursing homes or institutions) during an average month.

The measures for MHD are collected from information transmitted from the Regional Support Networks, the State Hospital Management Information System, and the MMIS. DDD obtains its performance measure results from staff members who are assigned responsibility for accumulating and reporting the information.

The federal requirements for management control systems are very extensive and have been instituted by the state.

Eligibility determination processes use ACES, the same system used by Economic Services Administration in WorkFirst. MAA uses the federally certified MMIS to process and adjudicate claims and for claims edit and audit processing support. These subsystems are the Claims Processing Subsystem, the Recipient Subsystem, the Provider Subsystem, and the Reference File Subsystem. Two other subsystems collect and produce data reports and do statistical analysis of processed claims. These are the Management and Reporting Subsystem and the Surveillance and Utilization Review Subsystem. Also used to produce data for claims accuracy analysis are the HWT (the vendor's name) paid claim analysis system, and the Extended Data Base System.

MAA uses a variety of quality control functions that reside in several different divisions. Each of these functions contributes to the Utilization and Cost Containment Initiative as well as other ongoing activities. The Coordination of Benefits Section of the Division of Client Support identifies recoveries for other parties. The Quality Review Services Section in the Division of Medical Management provides oversight of fraud and abuse detection in Medicaid programs. The Payment Review Program (PRP) in the Division of Information Systems uses computer analysis techniques to identify potential overpayments. The hospital and medical provider audit function resides in the Budget and Accounting section of the Division of Business and Finance. However, these audit functions have recently been consolidated into the Payment Review Program in the Division of Information Systems. MAA has reported that the results of these cost control programs (excluding PRP) and others have generated cost savings of $21.7 million for the fiscal year ended June 30, 2002. PRP has reported savings of $3.2 million. Since most of these functions reside in different organizational units, we believe a consolidation of these functions within one organizational unit would provide for more effective operations. We understand that some consolidation of these efforts was made in September of 2002.

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from the central finance function in DSHS and claims processing costs from MAA for Medicaid. Using the departments' existing definitions of direct services and administrative costs, the following chart indicates the administrative cost efficiency of this program.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Medicaid:						
MAA	2.14%	2,982,105,084	34,956,395	1.17%	28,757,248	0.96%
MHD	1.37%	388,311,853			5,307,926	1.37%
DDD	8.28%	414,552,926			34,319,985	8.28%
AASA	10.81%	869,022,884			93,964,328	10.81%
Total Medicaid	4.24%	4,653,992,747	34,956,395	0.75%	162,349,487	3.49%

This analysis reflects the effect that program design has on costs. A case management model as is used in AASA or DDD requires more administration than the RSN model used by MHD, where administration of the program is contracted to the RSNs. MAA uses ESA to perform its intake function for Medicaid and uses an automated claims processing function for providers. As such, its administrative costs are lower.

We obtained information from CMS to determine the administrative cost efficiency comparisons for Medicaid as a whole to other states. The following chart compares Washington's Medicaid program to peer states and the national average. This information is for the federal fiscal year 2001 and includes the federal portion of Medicaid expenditures even if it flowed to other organizations. Using the data from CMS we calculated total administrative funding as a percentage of total assistance payments. This is shown as administration efficiency in the following chart. We also calculated the percentage of the total program that is funded with federal dollars. This is shown as the federal share.

Fiscal Year 2001	Administration Efficiency	Federal Share
Missouri	4.60%	61.22%
Wisconsin	5.09%	59.22%
Oregon	8.25%	60.10%
Massachusetts	4.77%	50.54%
Indiana	4.77%	61.77%
Weighted Average	5.21%	57.62%
Washington	6.08%	51.13%
Percentage worse than peers	(16.67%)	(11.27%)
Rank	5	5
National Average	5.50%	56.94%
Source: CMS-64 Reports		

(Note: this chart shows the administrative costs for Washington State at 6.08%. This percentage includes the administrative costs for the Medicaid programs that are administered throughout the state. This percentage includes those administrative costs incurred by other state agencies, local municipalities and

nonprofit organizations. This may not be similar to other states. The administrative rate for DSHS reported above is 2.14%.)

This chart can indicate different aspects of fiscal productivity. However, it is not very meaningful for several reasons. As noted above, included in federal administrative costs are pass-through awards to other governments that MAA does not include in its cost presentations. The federal share is based on a federal calculation using certain demographic information pertaining to each state and is not reflective of program performance.

Another aspect of fiscal productivity can be expressed in terms of costs per Medicaid eligible person. The following information is also from CMS using a different system and only a subset of the cost information presented above. This chart indicates that Washington is performing very well in the cost per participant measure.

Fiscal Year 1999	Cost Per Person	Medicaid Expenditures	Medicaid Eligibles
Missouri	$3,189.31	$2,798,158,114	877,354
Wisconsin	3,988.28	2,245,816,439	563,104
Oregon	2,987.29	1,596,106,651	534,300
Massachusetts	4,748.41	4,952,519,946	1,042,985
Indiana	4,113.10	2,749,567,218	668,491
Average	3,805.28	2,868,433,674	737,247
Washington	2,876.60	2,574,980,860	895,148
Percentage better than peers	24.41%		
Rank	1		
Source: MMIS Statistical Reports			

Recommendations

- We recommend that the divisions other than MAA consider using outcome measures to provide a more balanced performance measurement system. Mental health and developmental disabilities services could be measured in various ways, but focus on how well the services improved the participants' conditions. Using targets for performance levels assists in accomplishing objectives.

- We recommend better integration of measures and reported results between the three systems used to report performance results.

- We recommend that the various quality review, audit and overpayment detection programs be consolidated into one organizational unit.

Management Practices

We find two management practices noteworthy:

- Even though outcome-based performance measures are not supported by federal guidance, MAA has developed measures that address how the programs affect the quality of life for participants.

- While fraud and overpayment detection are required by federal regulations, it wasn't until performance measures were developed with recovery and cost avoidance targets, that substantial improvements were made. This approach could prove useful to the other programs included in this project that do not have similar federal regulations.

Washington's Basic Health Plan

Program Objectives

State Objectives: The intent of the state Legislature is to provide, or make more readily available, necessary basic health care services to working persons and others who lack coverage, at a cost to these persons that does not create barriers to obtaining the services. The Basic Health Plan (BHP) is established for those residents not eligible for Medicare. These residents share the cost or pay the full cost of receiving basic health care services from a managed health care system.

To the extent that funds are available, the program is to be delivered throughout Washington to subsidized and non-subsidized enrollees. The plan administrator is directed to identify enrollees who are likely to be eligible for medical assistance and assist these individuals in applying for and receiving medical assistance. DSHS (and HCA) are expected to establish a system to coordinate eligibility determinations and benefit coverage for BHP enrollees and medical assistance recipients.

Results

The measures used by BHP in fiscal year 2003 are a significant improvement over the fiscal year 2002 measures. In addition, the linkage between the reporting systems has improved. BHP met or exceeded two out of the three key measures that have operational impact. However, the eligibility re-certification target used to measure what percentage of participants are challenged on eligibility, was very low. This has been corrected in the 2003 measures with a target of 100 percent recertifications on an annual basis.

As discussed in more detail below, BHP only has a few business variables that would significantly affect the financial results of the program. While the 2003 measures include a medical cost trend containment measure (success in controlling medical cost inflation), we suggest that a measure or series of measures be used that address the key business variables.

Comparisons that measure relative benefits and related costs with other state programs are not readily available. We have provided a discussion of certain program aspects of other states' programs but could not compare relative costs. BHP's cost structure is less than the Medicaid program, given the benefit levels and cost sharing with program participants.

We found that the systems used by BHP to report performance results were reliable.

Program Performance Measures

The Washington State HCA manages BHP. HCA establishes measures that are used by its various programs, including BHP. HCA measures approximately 25 various goals in customer service, human resources, program value and financial attributes in its fiscal year 2002 Balanced Scorecard. Most of these targets

address policy and procedural changes and are not outcome or output measures. Many of the 2002 targets were postponed to the 2003-2005 biennium. As such, our review focused on the following key measures of the claims payment processes area:

- 66 percent of applications for assistance are complete and accurate.
- 5 percent increase (over the baseline established at the beginning of the year) in the level of eligibility re-certifications.
- 74 percent of customer service calls are answered within five minutes.

BHP receives no federal money. The linkage between state program objectives and related performance measures, discussed above is illustrated in Table 4.1.

TABLE 4.1 BASIC HEALTH PLAN GOALS AND MEASURES

State Legislative Goals	State Measures
Provide or make more readily available necessary basic health care services to working persons and others who lack coverage, at a cost to these persons that does not create barriers to the utilization of necessary health care services.	Number of complete and accurate applications received from customers. (Target 66%)
DSHS shall coordinate with HCA & community and migrant health clinics to enroll children and immigrant adults in BHP	Increase in telephone response rate (% answered within 5 minutes) (Target 74%)
	Increase recertification by 5% (Target 4,730 annual recertifications)

Similar to other agencies, performance measures are found in various documents with varying degrees of consistent linkage. The HCA administrator has a performance agreement with the Governor's Office. HCA has a Balanced Scorecard for the entire organization and separate scorecards for individual divisions. HCA also reports results on certain performance measures to OFM on a quarterly basis.

The 2003 Balanced Scorecard for BHP retains the measures presented above with a change of recertification targets to 100 percent annually and adds measures to manage the effect of the recertification process. Other financial measures have been added in 2003 relating to reducing the number of enrollees in more than one state health care program and maintaining the 2004 medical cost trend rate of 10.6 percent. The 2003 changes are significant improvements over the 2002 performance measurement system used by HCA.

The operation of BHP is a balance of competing results: increased access and reduced cost. For example, given static funding, increased health care costs will reduce access by statutorily required enrollment management. While this

balance can be managed in a variety of ways, the following are the key business variables.

- Plan design and schedule of benefits: Legislation requires certain services to be provided. The schedule of benefits could be reduced to obtain cost savings. Reducing benefits would require legislative action.

- Eligibility requirements for enrollees and total enrollment. The current subsidy level of 200 percent of the federal poverty level (FPL) could be increased, thus increasing program costs, or reduced for cost savings. Any decrease in the subsidy level from 200 percent of the FPL to a lower percentage would require legislation. Current law requires HCA to manage enrollment so that it does not exceed available funding.

- Enrollees' financial participation. Premiums/co-payment arrangements, etc. can be increased to reduce program costs, however, HCA's legislation requires that the enrollees' ability to participate financially does not create barriers to access.

- Enrollees' use of health care services and overall costs. Health care costs are controllable mainly through negotiations with managed care providers. Such providers are expected to manage the use of services. Success in reducing contract rates could result in reduced coverage options in parts of the state.

While BHP has established a health care cost trend rate target to 2004 (measures the medical cost inflation specific to this program), a measure or series of measures that reflect the key business variables, would be useful.

Performance Reporting and Management Control Systems

BHP pays managed care providers at negotiated contract rates based on enrollment in their plans. Financial participation by participants is determined by factors such as income levels, family size, etc. HCA uses the Membership Billing and Management System (MBMS) for eligibility and benefit management functions. This system is integrated with a document imaging system. HCA is in the process of converting to a new eligibility determination system for BHP. HCA also has a system to monitor the operation of the Call Center. This system tracks and reports call center operational statistics, including the response rate.

The number of complete and accurate applications is captured in the computer systems. We verified the results reported for the quarter ended June 30, 2002 and reconciled the data for May to a separate report. The data in the spreadsheet agreed to the system-produced report. HCA reported the results as 41 percent (as compared to the 66 percent target rate). Our recalculation showed the actual results to be 42 percent.

The number of re-certifications is tracked in the same manner, using coding to show which enrollees are being re-certified. The selections are based upon risks identified in computer matching with Unemployment Insurance wage files, other information or as part of the normal cycle of recertification. The MBMS system then produces reports that show the total number of applications re-certified in one month. We verified the results reported for the year ended June 30, 2002 and reconciled the data from February to June to the MBMS Recertification Status reports. The data in the spreadsheet agreed to the system-produced report. HCA reported the results as 43,805 enrollees re-certified (as compared to the

18,920 annual target). The large difference between the result and the target is due to a change in focus from partial re-certification to total re-certification during 2002.

Customer service (phone call answer rate) is reported by averaging the overall response rate for three months. We verified the results reported for the quarter ended June 30, 2002 and reconciled the data for May to the phone system's monthly report. The data in the spreadsheet reconciled with the system-produced report. HCA reported the results as 87 percent of all calls answered within five minutes (as compared to the 74 percent target).

The results of our work indicate that the reported results are reliable for all of the measures reviewed.

HCA has recently changed its internal audit function. The Internal Audit work plan is in development and is expected to focus its efforts differently than past audits.

Performance in Fiscal Productivity and Efficiency

The following compares the costs of the medical assistance portion of Medicaid and Basic Health Plan.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Medical Assistance (Medicaid Only)	2.14%	2,982,105,084	34,956,395	1.17%	28,757,248	0.96%
Basic Health Plan	4.40%	263,009,587	6,685,345	2.54%	4,895,859	1.86%

Both plans contract with managed care organizations for provision of medical services, but Medicaid also has a minor portion of fee-for-service arrangements. Processing and administration costs are less for Medicaid due to the large volume of benefits and a highly automated claims processing system. BHP performs eligibility work on its enrollment base, while Medicaid participants are enrolled by ESA. Given the different nature of these programs, the administration of each does not appear to be overly costly. BHP is moving to a new benefit management system. BHP should expect to achieve cost reductions in benefit processing from a more functional system.

The relative benefit costs vary significantly between these programs. The following is the estimated annual cost per participant in each program.

Medical Assistance (Medicaid Only)	$4,277
Basic Health Plan	$2,201

This comparison indicates how plan design is the most significant cost variable. In comparing the coverage of these plans BHP does not allow or limits the coverage for many services covered by Medicaid.

Recommendations

Given the significant improvement in the design of performance measures from 2002 to 2003, we offer only one recommendation regarding performance measures. While BHP has established a health care cost trend rate target to 2004, a measure or series of measures that reflect the key business variables, would be useful. Plan design; eligibility requirements and financial participation; and utilization could be considered.

Management Practices

We believe two management practices employed by BHP are noteworthy:

- While BHP has responded, similarly to other agencies, in developing system add-ons to its main information systems to provide performance results, it has done so in a less labor-intensive manner.

- BHP has done a commendable job in anticipating operational effects from changes in its performance measures. For example, BHP has instituted a more rigorous re-certification process for 2003. It has anticipated the increase in dropped enrollments and developed measures to help manage those volumes and manage the increased volumes of re-certifications in the appeal process.

EMPLOYMENT ASSISTANCE PROGRAMS

Washington's Unemployment Insurance Program

Program Objectives

Federal Objectives: In general, the Federal-State Unemployment Insurance (UI) Program provides unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under state law), and who meet other state eligibility requirements. Unemployment insurance benefits are intended to provide temporary financial assistance to unemployed workers who meet these requirements. Each state administers a separate unemployment insurance program within guidelines established by federal law. In most states, benefit funding comes from taxes paid by employers.

State Objectives: State legislative objectives seek to alleviate economic insecurity for unemployed workers and their families due to unemployment. Unemployment reserves are to be set aside during periods of high employment to be used to pay benefits to people unemployed through no fault of their own.

Results

Washington ranks third highest nationally for tax rates on total wages. Washington ranks third highest in the average weekly benefit amount. The UI program has by requirement, fully incorporated federal performance measures into its performance management and reporting system. In addition, The Employment Security Department (ESD) provides outcome measures from its Work Source activities that enhance the UI program. Appendix H provides a great deal of information about how Washington compares to national averages and peer states.

In general, the UI program does very well in the time it takes to resolve higher authority appeals (as defined by federal requirements) and status decisions regarding new employers. It performs on average for lower authority appeals (as defined by federal requirements) decision timeliness and benefit overpayment rate. ESD contracts with the state's Office of Administrative Hearings for lower appeals and manages the higher appeals internally. It performs poorly in the timeliness of first benefit payments, timeliness of non-monetary decisions (such as what type of employment separation had occurred) and cash management measures. However, these comparisons do not consider Washington's high unemployment rate and the resulting volumes of claims to be processed

During times of high unemployment, performing less well in terms of timeliness of payment and delays in making benefit determinations are not unexpected. During the 12 month period ending June 30, 2002 Washington had the first or second highest unemployment rate in the nation. There are other factors that cause Washington to be at the top of the states in terms of taxes and benefits. Washington's laws provide for one of the highest weekly benefit amounts in the

nation and provide up to 30 weeks of benefits. Most other states provide up to 26 weeks of benefits.

The comparison to national and peer states statistics is consistent. Washington, due to its unemployment rate, is in the top 20 percent nationally in terms of volumes of claims and benefits paid. Washington is in the lower quartile for first payment timeliness within the state but is slightly better than average in first time interstate payment timeliness. If ESD achieves its 2003 Performance Agreement goal of 90 percent of all first payments in the state being paid in a timely manner, it will increase its performance in that category from the lower quartile to the national average.

EDS is a high performer in terms of its timeliness in determinations affecting employers. While ESD performs well in making timely non-separation decisions, it performs poorly in timely separation determinations and its non-monetary decision quality scores. Even if ESD achieves its 2003 Performance Agreement goal of increasing these measures by 20 percent, it still will perform below the national and peer averages.

ESD manages the appeals process well in comparison to national averages and the peer states. ESD performs extremely well for higher authority appeals and average for lower authority appeals. ESD contracts with the state's Office of Administrative Hearings for lower appeals and manages the higher appeals internally.

ESD performs in the lower quartile in cash management measures, but UI staff indicated that performing at that level allows them to fund banking services through compensating balance arrangements, which means bank fees are not assessed as long as a minimum balance is maintained.

Conclusions regarding the Benefit Accuracy Measurement (BAM) overpayment rate require care as it could represent many different aspects of payment accuracy. For example, states with complex laws would likely have a higher BAM overpayment rate than states with simpler laws. States that are more aggressive in payment accuracy investigations likely would have a higher rate than states with a less aggressive program. The rate could also mean that the states' payment processes are more or less accurate. For these reasons, we do not offer any conclusions regarding the state's BAM overpayment rate in relation to the national average or peer comparisons.

The UI program uses reliable methods for reporting performance and uses a variety of quality assurance and overpayment detection methods to assure that benefits are appropriately granted. We only noted one measure that was reported in error, but the discrepancy was very small.

Program Performance Measures

ESD measures a variety of performance attributes in its UI programs and WorkSource programs. Since UI is a federal-state partnership, the U.S. Department of Labor and the Employment and Training Administration (DOL/ETA) establish performance measures and criteria for minimally acceptable performance. These measures are divided between Tier I (over 10) and Tier II

(over 50) measures. The key Tier I measures address first payment timeliness, non-monetary determinations, appeals, cash management, and the time it takes to make status determinations. In addition to and consistent with these federal measures, ESD has established the following operational performance goals and measures:

- 90 percent of intrastate first payments will be made in a timely manner.
- 88 percent of claims will be accurate.
- 20 percent increase will be made in timely eligibility decisions.
- 75 percent of appeals will be affirmed and a 20 percent increase will be made in the rate of eligibility decisions with passing quality scores.

ESD also has measures in other areas such as electronic tax filing, customer service, human resources and financial management.

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated Table 5.1.

Other state measures included in the 2003 performance agreements that are not presented below include effectiveness of re-employment activities:

- 63,300 of UI claimants in re-employment activities enter employment.
- Reduce UI benefits paid to re-employment participants to 65 percent of their maximum entitlement.
- Dislocated workers in re-employment activities achieve an 80 percent wage recovery.
- Those in training achieve a 93 percent wage recovery after becoming re-employed.

TABLE 5.1 UNEMPLOYMENT INSURANCE GOALS AND MEASURES:

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
	FIRST PAYMENT TIME LAPSE	Using the insurance principle of sharing the risks, the state requires the compulsory setting aside of unemployment reserves to be used for the benefit of persons unemployed through no fault of their own	Same as federal performance measures plus:
Fund unemployment compensation benefits to the unemployed by a tax on employees and employers	Intrastate 14/21 Days (Full Weeks Only)		90% of first-time intrastate payments will be timely
	Intrastate 35 Days (Full Weeks Only)		
	Interstate 14/21 Days (Full Weeks Only)		
	Interstate 35 Days (Full Weeks Only)		
	Intra + Inter 14/21 Days		
	Intra + Inter 35 Days		
	NONMONETARY DETERMINATIONS TIME LAPSE	NOTE: The UI laws are detailed as to eligibility, benefits and administration requirements	Rate of timely eligibility decisions will increase 20%
	Inter & Intra 21 Days Separations		
	Inter & Intra 14 Days Non-separations		
	NONMON. DETERMINATIONS WEIGHTED QUALITY SCORES		Passing quality scores increase by 20%
	Lower Authority Appeals (LAA) TIME LAPSE		75% of appealed eligibility decisions affirmed
	30 Days		
	45 Days		
	90 Days		
	LAA QUALITY SCORES		
	Higher Authority Appeals (HAA) TIME LAPSE		
	45 Days		
	75 Days		
	150 Days		
	STATUS DETERMINATIONS TIME LAPSE		
	New Status Determinations - 90 Days		
	New Status Determinations - 180 Days		
	CASH MANAGEMENT		
	Elapsed Days		
	Annual Ratio		
	Benefit accuracy measurement (BAM) OVERPAYMENT RATE (of $ paid)		88% of Payments will be accurate

Performance Reporting and Management Control Systems

ESD uses two large databases for capturing and reporting performance measures. These systems are the TAXIS system for employer UI taxes and the General Unemployment Insurance Development Effort (GUIDE) for UI benefits processing. Other performance information is obtained from the Office of Administrative Hearings on appeal decisions and from a vendor on customer satisfaction survey results.

UI staff operates programs against the data in GUIDE to produce the payment and nonmonetary determination time lapse measures. The results are transmitted to DOL/ETA and are downloaded into worksheets for UI management reporting. Reports may be run from the DOL/ETA system to compare information. We compared the ESD Management Information Reports for these measures to reports run from the DOL/ETA system for selected months in the quarter ended June 30, 2002. While the raw numbers frequently did not match up, the differences on the percentage measure reported were not significant. However, we noted that the percentage reported in the performance agreement for first payment timeliness of 87.1 percent was for June and should have been reported for the quarter at 86.5 percent. This was an isolated incident and was quickly corrected.

The non-monetary determinations weighted quality scores are provided by the Federal Benefit Timeliness and Quality Review (BTQ) program composed of representatives from the federal government and other states. We noted the correct amount from the report of this program was reported. We determined that the lower authority appeals quality scores are supported by review sheets completed annually under a similar program.

We reconciled the amount of time it takes to go through the Appeals Office process as reported in the DOL/ETA system to information provided by the Office itself. We reconciled the amount of time it takes to go through the ESD appeals process in the DOL/ETA system to information provided by the ESD Commissioner's Review Office.

New status determinations are reported quarterly using employer counts from the TAXIS system. Cash management measures are calculated from data captured by DOL/ETA. We did not verify the accuracy of either of these measures due to the success of the preceding tests.

ESD maintains a variety of quality assurance functions in its UI program. The initial claim filing process is accomplished via an automated telephone system. The claimant inputs his or her Social Security Number (SSN) before being connected to a telephone-center operator. This process brings up the GUIDE claim sheet and is used to verify the claimants' identity.

ESD also has an Office of Special Investigations (OSI) that uses an automated system to perform matching of data between UI wage files and UI benefits. OSI also matches interstate claims through a service offered by a private company (ICON). Over 30,000 forms are mailed to employers each quarter asking them to verify selected information. When the forms are returned, the information is entered into the system, which calculates overpayments and sends an advice of rights notice to claimants. After further investigation, OSI makes a determination as to whether fraud had occurred and refers the account to another department for collection. OSI also performs a match against the new hire database

maintained by DSHS. Approximately 1,000 matches per week are identified and OSI sends letters to selected cases (200 to 600 per week) for additional information. Beginning in 2003, OSI will conduct a match with the Social Security Administration to determine whether valid SSNs are being used.

ESD also operates the UI Quality Control function that performs a random sampling of 120 paid claims and 40 denied claims per quarter. This function reports its results to DOL/ETA in its BAM system, which calculates the BAM overpayment rate used in the performance measures. This function also conducts the BTQ process on non-monetary determinations and reports the results to DOL/ETA.

ESD has an internal audit function that addresses internal controls, processing system integrity, financial compliance and special audit requests. While its audit focus is not directly related to the performance measures, it provides control review functions for ESD as a whole. This contributes to the overall effectiveness of the systems used to produce performance measure results.

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from the DOL/ETA website for the quarter ended June 30, 2002 regarding taxes and benefit comparisons among the states. This information shows that Washington ranks third highest for tax rates on total wages. This information also shows that Washington ranks third highest in the average amount of the first benefit payment. Using this same source, we calculated the percentage of federal allocations to benefits, noting Washington had the second lowest federal allocation as a percentage of benefits paid. This indicates that while Washington is at the top of states in terms of taxes and benefits, it operates very efficiently in terms of federal funds allocated to the program.

This conclusion is confirmed by a comparison of the UI program to the other workers' assistance programs included in this project as follows:

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Unemployment Compensation (ESD)	2.67%	1,945,253,325	33,091,955	1.70%	18,756,292	0.96%
Department of Labor and Industries	9.19%	1,387,636,117	45,449,874	3.28%	82,107,804	5.92%
Division of Vocational Rehabilitation	12.01%	39,092,943			4,694,907	12.01%

Recommendations

- The results of the performance measures in comparison to national averages suggest that improvements should be made in a few areas. The areas needing the most attention have already been included in ESD's 2003 performance measures. The time allowed for audit and its scope did not allow for an in-depth analysis of the business processes used in the under-performing areas. As such, no concrete recommendations are offered, but improvement in these areas will contribute to the overall effectiveness of the program.

- UI is the "keeper" of information that is important to many other programs in the state. The information regarding reported wages and UI benefits can be important to eligibility decisions made in other programs. UI already makes

certain information available to other agencies, but for some reason it is not systematically accessed. While we do not suggest that ESD should be held responsible for other agencies' decisions to use or not use this information, we do believe that ESD could play a central role in improvements in information sharing among various state agencies. This would have to be done in a manner that is consistent with state and federal UI confidentiality laws and in a manner that would have minimal impact on ESD's information technology resources.

Management practices

ESD has several management practices that are noteworthy:

- ESD has, by far, the most organized business planning processes of any of the agencies reviewed during this audit. The process links strategic initiatives to performance measures in a very direct manner. Performance measures that are so directly linked to strategic initiatives drive better performance management.

- As required by federal requirements, ESD uses sound methodologies to detect payments to ineligible people. ESD was best at using computer-assisted matching techniques in determining potential overpayments. It is this availability of information that leads to the recommendation, noted above, that other agencies routinely access ESD's information.

- ESD has moved to a telephone-center operation whereby initial benefit intakes and weekly claims reporting are conducted in a more automated environment. This allows for less labor-intensive processing, meaning that fewer staff can accomplish the same level of processing. Information from ESD suggests that this move has lowered its operating costs.

Washington's Workers' Compensation Program

Performance Measures

State Objectives: It is the state Legislature's objective that workers who are injured on the job and their families and dependents shall receive assistance regardless of questions of fault. The Legislature has established various rules regarding the payment of medical and death benefits, how premium rates are established, the use of funds and other administrative matters.

The Workers' Compensation program includes vocational rehabilitation services. One of the primary purposes of vocational rehabilitation services is to enable an injured worker to become employable at gainful employment consistent with his or her physical and mental status. If vocational rehabilitation is expected to be successful for an injured worker, a specific order of job and employer priorities is established in legislation ranging from returning to the previous job with the same employer to a new job with a new employer.

The Department of Labor and Industries (L &I) is required to establish criteria to monitor the quality and effectiveness of rehabilitation services provided by individuals and organizations. The Department also is required to engage in, where feasible and cost-effective, a cooperative program with the Department of Employment Security to provide job placement services.

Results

L&I provides workers' compensation insurance coverage to about two-thirds of the state's workforce. This is in addition to other programs, such as occupational safety and health, that L&I administers. The other one-third of workers in the state are covered by self-insured employers. L&I is one of only five state-run workers' compensation programs in the nation. We noted that in one other state-run program, approximately one-third of workers were covered under employer self-insurance arrangements.

No workers' compensation program in the nation has the benefit of a federal performance measurement system. L&I is not as far along as other agencies in developing a well-rounded performance management system, but it is improving. However, L&I has fully integrated its operational performance measures into its main processing systems, more than most of the other agencies reviewed in this project. The measures do address two critical areas of the program, the fairness of employer contributions and reducing the duration of certain time-loss claims. We have offered recommendations for other measures that would enhance the overall performance management system.

L&I did not achieve its targets for performance improvement in 2002. Time-loss duration (the total time that workers are receiving benefits) increased 16 percent from the baseline while the target was a 7.5 percent decrease. Also, L&I did not meet its target for increasing the hours reported in the wood frame construction industry (this measure addresses potential under-reporting of hours that affect program revenues). Because economic conditions and the decrease in housing

starts affect these measures, the Department reexamined them and developed new, more appropriate measures to reflect performance.

Due to its uniqueness, information to provide benchmark comparisons was not readily available. Appendix I provides details of certain comparisons that were made. The most compelling comparison is the premium cost among the states. Washington compares very favorably in this comparative measure.

We found that L&I uses fraud detection and quality assurance functions well. We also found that its systems were better aligned with tracking operational performance measures than most, and that those systems appear to be reliable.

Program Performance Measures

Because federal or national performance standards are not applicable to L&I in a way that these types of measures are to other state agencies, the Department has developed performance measures without the benefit of federal guidance or the availability of comparable benchmarks. However, L&I has fully integrated its operational performance measures into its main processing systems, more than most of the other agencies reviewed in this project.

L&I measures performance in several categories: safe workplace, Workers' Compensation, regulatory improvements, customer service and worker economic protection. Workers' Compensation measures for the 2002 Scorecard, with established targets include:

- Time-loss Duration (sustain at 7.5 percent below the baseline at June 30, 1997.
- Increase hours reported by residential wood frame construction industry by 10 percent (Target is 6.3 million hours)

Workers' Compensation measures for the 2003 Scorecard, with established targets include (baselines provided in parentheses):

- Reduce by 20 percent the average processing time for carpal tunnel claims (535 days).
- Reduce by 20 percent the number of independent medical exams with more than one medical specialist (12,500 exams).
- Reduce the number of active time loss claims in age range six to 24 months by 15 percent.
- Increase reporting of wood framing work by employers (4,900 employers).
- Collect $2.5 million from previously unregistered employers ($1,410,799).

As is evident from comparing the selected measures between 2002 and 2003, L&I is becoming more focused in its selected measures. L&I also uses a variety of operational measures directly related to processing claims. These measures include percent of first time, time-loss payments made within 14 days; timeliness of ongoing payments processed; caseload volume, backlog and closures; and determinations and protests. The Vocational Rehabilitation Program measures vocational rehabilitation intervention, plans and whether workers become employable.

L&I is in the process of developing on-going measures of long-term Return to Work and Wage Replacement outcomes, post-injury, by matching wage data reported by employers to ESD to L&I data.

L&I recently launched an intensive effort to make internal improvements to the Workers' Compensation system. This effort includes clearly identifying key measures related to reducing costs, providing faster and better service, and reducing administrative complexity.

The linkage between state program objectives and related 2003 performance measures is illustrated in Table 6.1.

TABLE 6.1 WORKERS' COMPENSATION GOALS AND MEASURES:

State Legislative Goals	Scorecard Measures
Provide a single remedy and sure, prompt and reasonable income and medical benefits to work-accident victims or income benefits to their dependents, regardless of fault	Reduce by 20% the average processing time for carpal tunnel claims.
	Reduce by 20% the number of IMEs with more than one medical specialist.
	Reduce the number of active time loss claims in age range 6 to 24 months by 15%.
	Increase reporting of wood framing work by employers.
	Collect $2.5 million from previously unregistered employers
NOTE: The Workers Compensation laws are detailed as to eligibility, benefits and administration requirements	**Operational Measures**
	% first payment of time-loss in 14 days
	% timely ongoing time-loss payment
	% protests completed within 90 and 180 days
	% claims reopened within 90 or 150 days
	third party recoveries and cost-avoidance
	appeals volume
State Legislative Goals	**Vocational Rehabilitation Operational Measures**
Enable the injured worker to become employable at gainful employment	The measures involve volume of input and output:
	New Vocational Rehabilitation intervention/AWA requests
	Open Vocational Rehabilitation intervention/AWA requests
RCW 51.32.095 requires an order of priority in returning to work. Also requires criteria to monitor quality and effectiveness of rehabilitation service providers.	Vocational Rehabilitation intervention/AWA outcomes
	New Vocational Rehabilitation plan activity
	Open Vocational Rehabilitation plans
	Vocational Rehabilitation plan outcomes

The state's workers' compensation program underwent a very extensive performance audit in 1998 conducted under contract with the Joint Legislative Audit Review Committee. This audit made many recommendations for improvement, but found that the system provided higher than average benefits with lower premiums than average. This audit appears to have had an effect on the selection of performance measures. For example, a concern over the timeliness of first time-loss payment is addressed by an operational measure above. Similarly, concerns about the time it takes for an injured worker to return to work is partially addressed by measuring the reduction of time-loss claims in

the six- to 24-month range. Other measures that appear to correspond to issues raised by this audit are the timeliness of responses to appeals, and reopened claims and the outcomes (i.e. employability) from vocational rehabilitation plans.

Performance Reporting and Management Control Systems

L&I uses the Labor and Industries Insurance Information System (LINIIS) which is an integrated database to handle claims management and employer account management. The Medical Information Payment System (MIPS), the database used to process and pay bills, is integrated with LINIIS. These systems capture the information used to report results of the measures discussed above. L&I uses information from LINIIS to track its operational performance measures and report them to management weekly. Queries to LINIIS are used to report the results of the performance measures. We reviewed the process of obtaining the measure results noting it appears reliable.

L&I maintains both a fraud detection unit and a quality assurance function. Appendix I provides details of L&I's fraud detection and quality assurance functions. We have assessed these areas as performing well in areas that contribute to overall performance management.

Performance in Fiscal Productivity and Efficiency

The main gauge of fiscal productivity is the premium rates charged to employers. The program's positive premium comparisons were discussed in the previous section. Since comparative operating cost data from other states is not readily available, the following compares the processing and administration costs among the employment assistance programs included in this project.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Claims Processing Costs	%	Administration Costs	%
Unemployment Compensation	2.67%	1,945,253,325	33,091,955	1.70%	18,756,292	0.96%
Department of Labor and Industries	9.19%	1,387,636,117	45,449,874	3.28%	82,107,804	5.92%
Division of Vocational Rehabilitation	12.01%	39,092,943			4,694,907	12.01%

While L&I separately tracks its claims payment processing costs, its administration costs are not broken out between Workers' Compensation and its other programs. As a result, the administration costs reflected above include administration for the Department as a whole and not the amount that would be specifically allocated to the Workers' Compensation program. This tends to overstate the administration cost percentage as compared to other programs. Since L&I has aspects of both a claims processing function and a case management function, its placement between UI and DVR makes sense. One item worth noting is the claims processing costs. UI has moved to a more automated telephone center operation that has helped it reduce its processing costs (estimated by UI to be an 8.8% decrease in the cost per claim).

Recommendations

The information we obtained in this project indicates that the program performs well in terms of cost to employers and the level of benefits provided to injured workers. As such, our recommendations focus on areas in which we believe performance management systems could be improved.

- L&I does use a time-loss duration measure but it is focused only on one time-specific segment (six to 24 months). While we understand why this segment is more critical than others, the overall objective of reducing the time it takes to return a worker to employment should be included in the highest level of performance reporting. L&I should consider a goal of returning employees to work, on average, comparable to self-insured employers.

  L&I has suggested some considerations for this recommendation. First, there may be an inherent advantage attached to returning a worker to a large organization that provides many opportunities for light duty in the short term (vs. the majority of State Fund employers being small operations).

  Second, the 1998 audit referenced above did a very thorough comparison of workers for self-insured companies and workers for those who pay into the state fund. It found that self-insured and retrospectively rated (retro) employers get their people back to work sooner but that there is very little difference in the long-term return to work among state fund employers, retro employers, and self-insured employers.

  We believe these are valid points to consider in applying this recommendation to practice. However, we still believe that an overall measure of time-loss duration reduction, with a corresponding goal of reducing overall time-loss duration reduction is worthy.

  In addition, the wage differential between before injury and re-employment would provide an extra measure to the effectiveness of the state's program. This recommendation would require a system to support benchmarking with other organizations.

- Workers' compensation laws and regulations in this state are complex. (This complexity exists nationally.) This presents a significant constraint on how timely decisions on eligibility, benefits, and appeals are made. However, the time it takes to make decisions is a cost not only to the state but to employers and injured workers. We believe an overall measure, supported by a series of specific measures related to timeliness of decisions, should be incorporated into L&I's overall performance management and reporting system.

- Some of L&I's operational management measures should be elevated to scorecard prominence. Consistent with the recommendations above, return to work, timely decisions, benefit payment timeliness and certain vocational rehabilitation measures (discussed below) should be included in scorecard measures or any performance agreement with the Governor. L&I is directed to keep its scorecard measures to a minimum. We believe that these overall program performance measures could replace the current scorecard measures without adding to the number of scorecard measures. However, if the focus on overall program performance means adding additional scorecard measures, we believe the state's performance measurement system should accommodate these suggested changes.

- The operational measures used by L&I are very well developed for an insurance operation. We believe overall, a performance management system should identify targets for these operational measures and monthly reporting to managers would include results compared to targets.

- While the legislative objectives differ between L&I and DSHS' DVR, L&I could use the experience of DVR in focusing its performance measures on participant outcomes. Measures such as successful employment and wage progression would help measure the effectiveness of the state's programs. These same measures, once defined, should be used to measure the success of the benefit providers contracted to provide vocational rehabilitation services.

Management Practices

L&I has certain management practices that are noteworthy:

- L&I has fully integrated its operational performance measures into its main processing systems, more than most of the other agencies reviewed in this project. The system used to communicate the results on a timely basis to management appears to be less labor intensive than other programs. Management receives this information and frequently addresses actions it should take in light of the results.

- L&I has recently become very aggressive in its fraud detection and quality assurance functions. The change in approach had yielded significant benefits. A few other agencies also are aggressively pursuing these functions, but many could use this example to investigate how their programs could benefit from this focus in purpose.

Washington's Vocational Rehabilitation Program (DSHS)

Program Objectives

Federal Objectives: The purpose of Title I of the Rehabilitation Act of 1973, as amended, which authorizes the State Vocational Rehabilitation Services Program, is to assist states in operating statewide comprehensive, coordinated, effective, efficient, and accountable vocational rehabilitation programs, each of which is:

- An integral part of a statewide workforce investment system.
- Designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment.

The federal Workforce Investment Act of 1998 requires the vocational rehabilitation program to collaborate with other workforce development, educational, and human resource programs in a one-stop service delivery system. The Act's objective is to create a seamless delivery system by linking the agencies operating these programs in order to provide universal access to the programs operated by each agency.

State Objectives: State legislative objectives are: rehabilitate individuals with disabilities so that they can prepare and engage in a gainful occupation; provide services for the disabled so that they can enter more fully into life in the community; assist the disabled to become self-sufficient and self-supporting; and encourage and develop community rehabilitation programs, job support services and other resources needed by individuals with disabilities.

Results

The Division of Vocational Rehabilitation (DVR) measures a variety of performance indicators that the federal government uses to produce comparative statistics for the nation. DVR focuses its attention on improving career development with wage progression and measures outcomes in terms of successfully closed cases. As such, these indicators measure the outcomes of the participant and are well designed. Unlike the WorkFirst program, DVR does not measure the success of its participants in retaining employment, except for a short period of time after a case has been closed. Some clients return, and are encouraged to seek additional services. As such, measuring the degree to which participants return to the program would not be as meaningful for DVR as it is for WorkFirst. However, some measure of the program's long-term success could be useful.

While DVR is meeting many of its internal targets for workload and timeliness measures, it is struggling with its core measures of successful outcomes and rehabilitation rate. As discussed more fully in Appendix J, DVR is under performing its cumulative cases that were closed and rehabilitated by 55 percent and its customer rehabilitation rate by 19 percent. However, compared to national averages for the federal fiscal year 2000, DVR performed quite well in

most comparative measures. A change in the required qualifications for vocational rehabilitation counselors occurred between 2000 and 2002. Staffing issues caused by this change partially explain the change in performance levels and could result in a financial impact on the program.

DVR does not include a management target to address the staffing issues. It would seem prudent to establish a measure to track progress toward a goal that would minimize the loss of federal funds and avoid federal sanctions. DVR estimates that up to $30 million in federal funds could be lost from not adequately addressing these staffing issues.

Program Performance Measures

DVR measures a variety of performance indicators that the federal government uses to produce comparative statistics for the nation. DVR focuses its attention on improving career development with wage progression and measures outcomes in terms of successfully closed cases.

DVR uses a strategic planning process that incorporates goals and objectives of its primary programs within the context of the DSHS mission and strategic themes. This process is useful in defining performance goals and measures to address federal and state program objectives within external and internal constraints. The strategic plan addresses the State Vocational Rehabilitation Services Program and the Workforce Investment Act in defining its strategic objectives. In addition to the federal performance measures, DVR uses similar but expanded measures that it reports in its Executive Management Information System (EMIS). EMIS reports financial and case volume information in addition to participant outcome measures. We obtained the EMIS reports used by DVR to manage its program and have summarized the results in Appendix J.

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated in Table 7.1. The state's performance measures are the same as the federal measures plus other output measures from EMIS above.

TABLE 7.1 DIVISION OF VOCATIONAL REHABILITATION GOALS AND MEASURES:

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
The State Vocational Rehabilitation (VR) Services Program, is to assist states in operating statewide comprehensive, coordinated, effective, efficient, and accountable VR programs. DVR is an integral part of a statewide workforce investment system; and is designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment. The WIA of 1998, as amended, requires the VR program to collaborate with other workforce development, educational, and human resource programs in a one-stop service delivery system. The WIA's objective is to create a seamless delivery system by linking the agencies operating these programs in order to provide universal access to the programs operated by each agency.	1.1: Change in Total Employment Outcomes After an IPE (>= 0)	1) to rehabilitate individuals with disabilities so that they can prepare and engage in a gainful occupation	% of participants successfully rehabilitated
	1.2: Percent of Employment Outcomes After Services Under an IPE (>= 55.8%)	2) to provide services for the disabled so that they can enter more fully into life in the community	The state uses the same performance indicators included under the federal measures column
	1.3: Percent of Employment Outcomes for all Individuals that were Competitive Employment (>= 72.6%)	3) to assist the disabled to become self-sufficient and self-supporting	In addition, the following **volume and output measures from EMIS** are used:
	1.4: Percent of Competitive Employment Outcomes that were for Individuals with Significant Disabilities (>= 62.4%)	4) to encourage and develop community rehabilitation programs, job support services, and other resources needed by individuals with disabilities	Number of new applications
	1.5: Ratio of Average VR Wage to Average State Wage (>= .52)		Total open cases
	1.6: Difference Between Self-Support at Application and Closure (>= 53.0)		Number of IPEs and post employment plans written
	Number of primary indicators (1.3 to 1.5) in standard 1 that were failed. (Can fail no more than 1)		Total cases closed after eligibility
			Total participants served
	Number of indicators in standard 1 that were failed. (Can fail no more than 2)		Participants Served in Extended Support Services
			Average number of days to eligibility determination for decisions made during the month
	2.1: Minority service rate ratio (> = .80)		Average number of days from eligibility to plan for IPEs written during the month

The results of these measures compared to national and peer state averages for 2000 are included in Appendix J. DSHS's DVR is performing very well in most of the federal performance measures. Washington is performing well in achieving positive outcomes for program participants.

While many of the EMIS measures are consistent with the federal program measures, many can be considered "feeder" measures in that accomplishing targets in determination timeliness and plans written (operational activity measures), for example, helps to accomplish the outcome measures. The summary of measures discussed previously indicates a very good management practice. Establishing operational management measures with aggressive targets assists DVR in managing results to targets on a day-to-day basis. Aggressive target-setting allows for the accomplishing of overall goals even though individual internal targets may not be met. This is best illustrated by the measure of cases closed that were rehabilitated. While DVR missed its internal target by 4 percent in 2000, it performed in the top 10 nationally in 2000 in that measure.

DVR's strategic plan for 2004 to 2009 discusses many significant challenges to the program, two of which are the order of priority and staffing. The strategic plan discusses these issues in the following way.

By law, when DVR cannot serve everyone who applies for and is eligible for services because of a lack of staff or funding resources, it must establish a process to ensure that those with the most significant disabilities are selected for services first. This process, which requires that those with the most significant disabilities be served in the order in which they apply, is called "Order of Selection." This process substantially slows the provision of services to customers, resulting in a reduction in the number of customers served at various stages of the rehabilitation process.

DVR recently had to raise the minimum qualifications for vocational rehabilitation counselors in order to comply with federal requirements. The Division received sufficient state matching funds for the next biennium to increase federal funding. This has put the Division in the position of having sufficient funds to serve potential applicants and existing customers, but insufficient staff resources to do so. Consequently, DVR anticipates that it will under spend its federal grant and could lose up to $30 million over the next two years. This means that as many as 7,500 individuals will not receive services, not because dollars are not available, but because of insufficient staff resources. In addition, DVR will possibly be subject to federal sanctions for failing to meet mandatory service delivery standards and would lose additional federal dollars as a result. These dollars would be redistributed to states that do meet the standard.

While DVR measures services in the order of priority, it does not include a management target to address the staffing issues. It would seem prudent to establish a measure to track progress toward a goal that would minimize lost federal funds and avoid federal sanctions.

Performance Reporting and Management Control Systems

DVR uses the STARS database system to track customer status. This system accumulates work effort in terms of number of applications processed, eligibility

determinations made, number of employment plans prepared, number of closures and the rehabilitation rate. This system is also used to report the federal statistics.

Working with DVR information system staff, we were able to replicate queries of the STARS database to verify reported performance results. The information in EMIS that was verified in this manner included the number of new applications, Individual Plans for Employment (IPE) written, percentage of IPEs written for disability category, cases closed that were rehabilitated, customers served, days to eligibility determination, open cases, closed cases and percent rehabilitated by disability category and average wage statistics. Based upon this work, the DVR systems used to report performance results are reliable.

DVR staffs an internal audit function that performs random audits as well as ongoing monitoring. DVR field units are audited, as well as several agency-wide processes. While the internal audit function focuses on fiscal accountability, it does review certain aspects of program management. For example, the Internal Auditor reviewed the revised DVR's CRP purchasing procedures that took affect on July 1, 2001, and concluded that there has been an increase in accountability. These CRP purchases represented 31 percent of all client payments as of June 12, 2002. In the auditor's opinion, present CRP services did not provide the vendor with the incentive to place people with disabilities into employment that meets their needs. The auditor found that more emphasis is placed on assessment and training than placement and retention. The major portion of CRP service dollars are paid for assessment and training. The auditor also found that the system creates an environment that can contribute to a less than professional behavior between the vendor and counselor. This finding resulted in a plan to provide incentives for more efficient and effective job placements and long-term retention for DVR clients.

Performance in Fiscal Productivity and Efficiency

We obtained certain fiscal information regarding the state programs for the 1999 federal fiscal year. While this information is somewhat out of date, it provides a consistent comparison of certain fiscal productivity measures. The result of our analysis is as follows:

Federal Fiscal Year 1999	Percentage of Administration to Total Costs	Percentage of Administration to Direct Costs	Rehabilitation Per Employee	Cost per Outcome	Cost per Significant Disability Outcome
Washington	10.62%	12.66%	11.1	$ 10,635.11	$ 11,636.35
National Rank (out of 55)	31	31	15	12	13
National Average	10.54%	12.43%	9.3	$ 11,990.41	$ 14,209.30
% Better (Worse)	(0.75%)	(1.84%)	19.37%	11.30%	18.11%
Peer Rank	5	5	4	4	3
Peer Average	8.39%	9.58%	12.2	$ 11,044.76	$ 12,547.48
% Better (Worse)	(26.65%)	(32.07%)	9.02%	3.71%	7.26%

This analysis allows for the following conclusions:

- While DVR spends more on administration than most states, it is more productive than most states in obtaining outcomes from the dollars spent on clients both nationally and in comparison to peer states. Washington performs better in these measures than both the national and peer states' averages. DVR ranks in the middle of peer states for these measures.

- DVR is in the top third in staff productivity, nationally, but is in the bottom half of the peer states. Even with a fourth place ranking among the peers, Washington's rehabilitation per employee is better than the peer average.

In comparison to the vocational rehabilitation costs in L&I, DVR case management is much more expensive (L&I's cost per completed plan is $3,427 versus $10,635 as shown above).

The issues regarding staffing, previously discussed, are significant to the fiscal productivity profile. Using 2002 EMIS and other data, we developed an approximation of comparative statistics to the 1999 federal data. This data is not comparable to the federal information due to differences in definitions, and should be treated as such. However, it shows that the staffing issues could have a significant impact on the fiscal productivity of the program.

Percentage of Administration to Total Costs	Percentage of Administration to Direct Costs	Rehabilitation Per Employee	Cost per Outcome
10.60%	11.85%	4.1	$ 31,827.97

In 1999 the federal information showed that 3,719 persons were rehabilitated using 335 employees. The 2002 EMIS data showed that 1,230 persons were rehabilitated using 298 employees. Total program costs were reported as $47.1 million in 1999 and $43.8 million in 2002. While financial resources were less by 7 percent and staffing resources were less by 11 percent, rehabilitations were down by 67 percent. There are three main reasons for this decrease in the number of rehabilitations; Order of Selection, Staffing and Informed Choice. These reasons are discussed in detail in Appendix J.

Recommendations

We have concluded that the performance measures used by DVR are appropriate and well designed. However, we offer the following recommendations regarding performance measures that would enhance its performance management system.

- DVR should develop a meaningful measure of the program's long-term success. A measure similar to the "Success in the Workplace" used by the federal Administration for Children and Families in the TANF should be considered. This combines the job retention rate and increases in the rate with earnings rate gains and increases in that rate for the program as a whole. This may require capturing employment information that is not currently tracked.

- DVR does not include a management target to address the staffing issues previously discussed. It would seem prudent to establish a measure to track progress toward a goal that would minimize lost federal funds and avoid federal sanctions.

Management Practices

DVR has some management practices that are noteworthy:

- DVR uses a strategic planning process that incorporates goals and objectives of its primary programs within the context of the DSHS mission and strategic themes. This process is useful in defining performance goals and measures to address federal and state program objectives within external and internal constraints. DVR's performance measures are better linked to strategic initiatives than we found in most other programs.

- While many of the EMIS measures are consistent with the federal program measures, many can be considered "feeder" measures in that accomplishing those targets helps to accomplish the broader outcome measures. This is a very good management practice. Establishing operational management measures with aggressive targets assists the Division in managing results to targets on a day-to-day basis. Aggressive target-setting allows for the accomplishing of overall goals even though individual internal targets may not be met. We believe DVR has set a "higher bar" for performance expectations than the other programs and should be commended for doing so.

APPENDIX A- PROJECT REQUIREMENTS

PROJECT REQUIREMENT	LOCATION
Determine the number of transactions and dollar value, of all claims/benefits payments by agency and program.	The States Results
Identify the type of performance measurements each agency has established for programs selected, including comparisons to other states or within this state and determine if each agency is adequately performing this activity.	Program Sections and Appendices
Determine validity and reliability of management's performance measures. Perform tests of performance measurement activities during audit where appropriate or possible.	Program Appendices
Survey selected clients, providers and relevant front-line employees to obtain their suggestions for improving the claims/benefit process. Evaluate responses for significance.	Program Appendices
Determine if some clients are appropriately receiving program benefits from more than one agency; also determine if clients are receiving the same or similar benefits from more than one agency. Evaluate whether there are common criteria in these cases that might be used to more effectively combine or coordinate these activities in some type of "one-stop shopping".	The State's Results and Audit Methodology Appendix
Determine the adequacy of internal controls and internal audits over performance.	Program Appendices
Determine the adequacy of systems used for measuring, reporting, and monitoring performance.	Program Appendices
Analyze administrative costs agencies charge for processing claims/benefits. Obtain costs for each system and determine if costs are valid and reasonable. With the goal of providing recommendations that would reduce administrative costs and help ensure that only eligible persons receive benefits, respond to the following questions: ➢ If the state could start over to plan the administration of claims/benefits, would the business system(s) be the same as now? Are there redundancies that could be eliminated? Does consolidation of any systems or programs make sense? ➢ Have any other states achieved significant reforms in claims/benefits processing? ➢ Are there proven "e-tools" that could be used to improve state claims/benefits processing?	Program Appendices Appendix K State Workloads The State's Results
Conclude regarding the extent to which legislative, regulatory, organizational goals and objectives are being achieved, and program effectiveness.	Program Sections
Identification and recognition of best practices.	Program Sections

APPENDIX B- LIST OF ACRONYMS

AASA	Aging and Adult Services Administration
ACES	Automated Client Eligibility System
ACF	Administration for Children and Families
AFDC	Assistance for Families with Dependent Children
AFRS	Agency Financial Reporting System
AWA	Available for Work Assessment
BAM	Benefit Accuracy Measurement
BARTS	Automated system used by OSI; used to match data in UI wage files and UI benefits
BHP	Basic Health Plan
BTQ	Benefit Timeliness and Quality Review
CAP	Community Alternatives Program
CARD	Database used by OFM
CCDF	Child Care and Development Fund
CCIS	Claims Capture Imaging System
CDC	Centers for Disease Control and Prevention
CMS	Center for Medicare and Medicaid Services
CMSO	Center for Medicaid and State Operations
CPAS	Claims Processing Assessment System
CRP	System for purchasing services used by DVR
CSO	Community Services Office(s)
DCS	Division of Child Support
DCTED	Department of Community, Trade and Economic Development
DDD	Division of Developmental Disabilities
DMOS	Division of Management and Operation Services
DOH	Department of Health
DOL	Department of Labor
DSHS	Department of Social and Health Services
DVR	Division of Vocational Rehabilitation
EBT	Electronic Benefit Transfer
EMIS	Executive Management Information System
EPSDT	Early Periodic Screening Diagnosis Treatment
ESA	Economic Services Administration
ESD or ES	Employment Security Department
ETA	Employment and Training Administration

FFS	Fee for Services
FNS	Food Nutrition Service
FOCUS	Focus is the name of one of the claims payment accuracy testing methods used by MAA
FPL	Federal Poverty Level
FRED	Fraud Early Detection
GUIDE	General Unemployment Insurance Development Effort; database used by ESD for UI benefits processing
HAA	Higher Authority Appeals
HCA	Health Care Authority
HO	Health Organization
HWT	HWT is a computer services provider used in the Medicaid program
ICF/MR	Intermediate Care Facilities for the Mentally Retarded
ICON	Provider of interstate SSN Matches used by UI
IME	Independent Medical Exams
IMR	Infant Mortality Rate
IPE	Individualized Plan for Employment
JAS	Job Automated System
JLARC	Joint Legislative Audit and Review Committee
L & I	Department of Labor and Industries
LAA	Lower Authority Appeals
LINIIS	Labor and Industries Insurance Information System (Integrated database used by L & I)
MAA	Medical Assistance Administration
MBMS	Membership Billing and Management System
MEQC	Medicaid Eligibility Quality Control System
MHD	Mental Health Division
MIPS	Medical Information Payment System
MMIS	Medicaid Management Information System
MOU	Memorandum of Understanding
MRDA	Management Reports and Data Analysis
OCR	Optical Character Recognition
OFM	Office of Financial Management
OIG	Office of Inspector General
OPTICA	Imaging system for document management
OSI	Office of Special Investigations (ESD)

PRAMS	Health related survey
PRP	Payment Review Program
QA	Quality Assurance
RCW	Revised Code of Washington
RHC	Rehabilitative Health Center
RSA	Rehabilitation Services Administration
RSN	Regional Support Network
SAO	State Auditor's Office
SBCTC	State Board for Community and Technical Colleges
SCHIP	State Children's Health Insurance Program
SEMS	Support enforcement Management System
SSN	Social Security Number
SSPS	Social Services Payment Systems
STARS	Database system used by DVR to track customer status
TANF	Federal, State, and Tribal Temporary Assistance for Needy Families
TAXIS	Database system used by ESD for employer UI taxes
TL	Time Loss
TPA	Third Party Administrator
UI	Unemployment Insurance
UMP	Uniform Medical Plan
VR	Vocational Rehabilitation
WC	Workers' Compensation
WIA	Workforce Investment Act
WPLEX	Workplace Labor Exchange

APPENDIX C- AUDIT METHODOLOGY

Introduction to Miller and Miller, and the Project

This audit was conducted by our Firm's shareholders, who have been in professional practice since 1980. We have experience with more than 30 state agencies and have conducted a variety of performance and management audit projects. We maintain the qualifications required by generally accepted government auditing standards. As such, we bring a unique set of skills, experience and perspective to this project.

This performance audit examined a wide range of activities conducted by the state of Washington. The audit was conducted in three months and covered five state agencies and several divisions within certain agencies. Due to the short time frame allowed for the audit and the wide variety of programs and activities selected for review, no individual program was subject to an in-depth review. Time and budget were insufficient to allow for specific individual business process, policy or information system considerations. This audit is focused on statewide performance measurement and management.

Audit Objectives

The requirements for this audit come from two sources, Engrossed Substitute Senate Bill 6387 (the 2002 supplemental operating budget), which appropriated $150,000 for this audit and set out certain procedures to be followed, and the State Auditor's Office, which set certain expectations in the contract for the audit.

Budget Proviso Language

The budget proviso included the following language regarding the audit:

"$150,000 of the general fund--state appropriation for fiscal year 2003 is provided solely for the state auditor to contract for an objective and systematic performance audit of state claims benefits administration. (a) The independent contractor shall use generally accepted government auditing standards. The performance audit shall include, but not be limited to, the following: (i) Validity and reliability of management's performance measures; (ii) A review of internal controls and internal audits; (iii) The adequacy of systems used for measuring, reporting, and monitoring performance; (iv) The extent to which legislative, regulatory, and organizational goals and objectives are being achieved; and (v) Identification and recognition of best practices. (b) The performance audit on state claims benefits shall include direct grants to clients, direct payments to providers, and workers' compensation payments. The following state agencies, at a minimum, shall be subject to audit sampling: Department of community, trade, and economic development, the employment security department, the department of labor and industries, the department of social and health services, and the Washington state health care authority. The performance audit shall indicate and grade agencies'

performances in administering state claims benefits. The state auditor shall report the findings of the performance audit to the appropriate legislative committees by November 30, 2002."

Audit Scope

As set out in the contract written by the State Auditor's Office, the scope of the audit includes:

1. A determination of the number of transactions and dollar value, of all claims/benefits payments by agency and program.

2. Identification of the type of performance measurements each agency has established for the programs selected for audit, including comparisons to other states or within this state and to determine if each agency is adequately performing this activity.

3. A determination of the validity and reliability of management's performance measures and testing of performance measurement activities where appropriate or possible.

4. A survey of selected clients, providers and front-line employees to obtain suggestions for improving the claims/benefit process and an evaluation of responses for significance.

5. A determination as to whether clients are appropriately receiving program benefits from more than one agency and a determination as to whether clients are receiving the same or similar benefits from more than one agency. An evaluation as to possible common criteria that might be used to more effectively combine or coordinate these activities in some type of "one-stop shopping".

6. A determination of the adequacy of internal controls over, and internal audits of, performance.

7. A determination of the adequacy of systems used for measuring, reporting and monitoring performance.

8. An analysis of the administrative costs of processing claims/benefits, including a determination of whether costs are valid and reasonable. With the goal of providing recommendations that would reduce administrative costs and of helping ensure that only eligible persons receive benefits, the audit sought answers to these following questions:

    a. If the state could start over to plan the administration of claims/benefits, would the business system(s) be the same as now? Are there redundancies that could be eliminated? Does consolidation of any systems or programs make sense?

    b. Have any other states achieved significant reforms in claims/benefits processing?

    c. Are there proven "e-tools" that could be used to improve state claims/benefits processing?

9. A conclusion regarding the extent to which legislative, regulatory, organizational goals and objectives are being achieved, and program effectiveness.

10. Identification and recognition of best practices.

The scope of the audit included these claims/benefits programs:

Department of Social and Health Services (DSHS)
Medicaid
Food Stamps
Vocational Rehabilitation
WorkFirst

Employment Security Department (ESD)
Unemployment compensation
WorkFirst

Department of Labor and Industries (L&I)
Worker's Compensation
Vocational Rehabilitation

Health Care Authority (HCA)
Basic Health Plan

Department of Community, Trade and Economic Development (DCTED)
WorkFirst

In addition, the State Auditor's Office described the evaluation criteria to be used in the project:

The audit must grade agencies' performance in administering state claims/benefits. The grading for the claims/benefits performance audit included:

1. Quality and process management practices
2. Independent and internal audit functions
3. Internal and external customer satisfaction
4. Program effectiveness
5. Fiscal productivity and efficiency
6. Statutory and regulatory compliance

The contract was awarded in a competitive process in late July. The contract began on July 30, 2002. We provided the State Auditor's Office with our audit plan, meeting all of the objectives listed above, on August 11, 2002. The contract required our firm to provide the State Auditor's Office with the preliminary report on all of the objectives by October 31, 2002 and be available for consultation regarding the final report until November 30, 2002.

Audit Methodology

We developed an in depth and detailed audit program linked to the audit objectives above. The audit program documents the audit approach and methodologies used in the audit. We obtained and analyzed a large volume of information from a wide variety of sources. We held group meetings or individual

interviews with approximately 100 people and corresponded with over 40 individuals. We obtained extensive documentation regarding performance measures and financial information from the agencies. We obtained data on programs from federal agency websites and certain comparative state data from a variety of sources. Results of audit or consulting reports and internal audit plans were usually obtained directly from the agencies but occasionally were obtained from internet-related research.

The process of determining appropriate benefit overlap involved data extracts from each of the agencies. For client confidentiality reasons, this data was transmitted directly to the Auditor's Office. On our behalf, they used computer-assisted auditing techniques to identify individuals that received benefits from more than one state agency. This process presented a significant challenge to us as the state's management of Social Security Numbers (SSN) as identifiers is very poor. We were unable to identify matches for individuals receiving benefits in situations in which the agency had incorrect or invalid SSNs recorded. The agencies had incorrect or invalid SSNs in the following situations:

- The person receiving the benefit gave an incorrect SSN. This includes a large number of people sharing SSNs. This also includes individuals who gave multiple SSNs. DSHS identifies individuals who gave different names and SSNs.

- The agency entered the SSN into their system incorrectly.

- The agency assigned a SSN because the person did not provide one.

The SSNs from the various benefit systems provided by the agencies were run through a program that tells if the SSN is assigned to someone who is deceased or if the SSN is invalid. The following schedule shows the results of this test. In reading the following chart certain considerations are important, as this compilation of SSN errors is duplicative.

- Some individuals receive benefits from multiple programs. Therefore, the sum of the universe by program may exceed the total beneficiaries. For example DSHS reported 1,123,213 individuals served by its programs but the sum of the universe in the chart below is 2,018,231 individuals because individuals receiving benefits from more than one DSHS program are counted in each program.

- The actual number of deceased individuals receiving benefits may exceed the number indicated since most programs contain numerous agency-assigned or invalid SSNs.

- Included in the number of deceased receiving benefits are those who may have deceased during the benefit period tested (July 2001 through March 2002). Individuals may have legitimately received benefits before they deceased during this period and then received no additional benefits.

- For pension benefits, surviving spouses are eligible to receive benefits only if they have not remarried.

- Invalid SSNs do not meet certain rules for the numbers and may be invalid for the following reasons: 1) SSN has never been assigned, 2) SSNs cannot begin with 9, 3) Middle 2 digits cannot both be zeros, or 4) Last 4 digits cannot all be zeros.

Agency	Program	Universe	Deceased	Invalid
DSHS	MMIS	995,788	18,330	6,761
	DDD	33,798	1,358	601
	MHD	84,613	2,630	784
	AASA	43,933	5,748	316
	FOOD	551,350	5,013	3,159
	DVR	23,908	321	182
	WorkFirst	284,841	1,000	1,730
		2,018,231	**34,400**	**13,533**
L&I	TimeLoss	57,442	474	367
	Pensioners	12,781	444	35
	Pension	6,874	4,329	1,739
	Pension (Recipients)	7,015	313	250
	MIPS	306,971	2,894	2,473
		391,083	**8,454**	**4,864**
HCA*	Medicaid	30,920	59	724
	BHP	118,814	453	12,407
		149,734	**512**	**13,131***
ESD	UI	99,157	167	43
		99,157	**167**	**43**
		2,658,205	**43,533**	**31,571**

***** HCA reported that 12,274 assigned ID numbers are included in this total

We feel that state agencies should start requiring SSNs from all people requesting benefits. The agencies should be verifying that the numbers are valid. Not only would this help to catch data entry errors, more importantly this would enable agencies to verify information between themselves and prevent the payment of benefits in situations in which individuals are not eligible to receive them. The requirement to provide SSNs would be consistent with requirements for receiving benefits from federal programs. However, Washington Administrative Code, WAC 388-476-0005 allows and authorizes DSHS to provide benefits to clients even when they do not have or will not provide a SSN card.

From these various series of matched populations, we selected 205 for further review. Agency staff conducted these reviews and reported the results to us. The following chart shows the matching benefits that were determined in this process. We designed nine tests that are described after the chart for further investigation by the agencies. Because of the SSN problem noted above DSHS did not conclude on several matches because they were not confident that what we believed to be a match was in fact the same person.

Population		43,933	33,798	23,908	551,350	84,613	995,788	284,841	99,157	118,814	30,920	57,442	160,025	19,655	19,978
	Source	**DSHS-AASA**	**DSHS-DDD**	**DSHS-DVR**	**DSHS-FOOD**	**DSHS-MHD**	**DSHS-MMIS**	**DSHS-WORKFIRST**	**ESD-UI**	**HCA-BHP**	**HCA-MEDICAID**	**L&I-TIMELOSS**	**L&I-MIPS**	**L&I-PENSIONS-PENSIONERS**	**L&I-PENSIONS-RECIPIENTS**
43,933	**DSHS-AASA**	**XXX**	311	779	15,502	6,249	42,927	470	28	254	26	99	152	123	26
33,798	**DSHS-DDD**	311	**XXX**	3,057	10,243	5,563	32,665	2,456	42	95	19	62	244	25	8
23,908	**DSHS-DVR**	779	3,057	**XXX**	9,843	4,491	13,285	2,207	576	1,398	172	846	1,344	14	8
551,350	**DSHS-FOOD**	15,502	10,243	9,843	**XXX**	47,199	459,213	253,557	6,497	11,024	2,312	5,360	12,329	207	52
84,613	**DSHS-MHD**	6,249	5,563	4,491	47,199	**XXX**	83,687	19,862	257	810	146	380	980	69	26
995,788	**DSHS-MMIS**	42,927	32,665	13,285	459,213	83,687	**XXX**	258,800	5,478	11,280	3,733	4,944	12,965	607	249
284,841	**DSHS-WORKF**	470	2,456	2,207	253,557	19,862	258,800	**XXX**	2,706	3,055	924	2,123	5,768	26	17
99,157	**ESD-UI**	28	42	576	6,497	257	5,478	2,706	**XXX**	2,562	766	2,237	6,561	4	14
118,814	**HCA-BHP**	254	95	1,398	11,024	810	11,280	3,055	2,562	**XXX**	30,920	2,182	4,802	225	88
30,920	**HCA-MEDICAID**	26	19	172	2,312	146	3,733	924	766	30,920	**XXX**	608	1,466	47	21
57,442	**L&I-TIMELOSS**	99	62	846	5,360	380	4,944	2,123	2,237	2,182	608	**XXX**	52,132	1,236	259
160,025	**L&I-MIPS**	152	244	1,344	12,329	980	12,965	5,768	6,561	4,802	1,466	52,132	**XXX**	1,471	64
19,655	**L&I-PENSIONS-PENSIONERS**	123	25	14	207	69	607	26	4	225	47	1,236	1,471	**XXX**	12,781
7,015	**L&I-PENSIONS-RECIPIENTS**	26	8	8	52	26	249	17	14	88	21	259	64	12,781	**XXX**

For test 1, we selected 56 people receiving Unemployment Insurance (UI) and L&I Time Loss (TL) benefits in the same month. This was from 876 matches between UI and TL.

For test 2a, we selected 35 people with significant wages reported to the employment Security Department (ESD) who were receiving benefits from either or all of the following programs from DSHS: Medicaid, Food Stamps or TANF (which were selected from Work First and may be other than TANF). This was from 11,281 matches between the low-income programs with people receiving more than $20,000. For test 2b, we selected five people receiving Unemployment Insurance (UI) and who were receiving benefits from either or all of the following programs from DSHS: Medicaid, Food Stamps or TANF (which were selected from Work First and may be other than TANF). This was from 9,051 matches between the low-income programs with people receiving UI.

For test 2c, we selected five people receiving Time Loss benefits and who were receiving benefits from either or all of the following programs from DSHS: Medicaid, Food Stamps or TANF (which were selected from Work First and may be other than TANF). This was from 7,261 matches between the low-income programs with people receiving TL.

For test 2d, we selected five people receiving Time Loss benefits and Unemployment Insurance (UI) and who were receiving benefits from either or all of the following programs from DSHS: Medicaid, Food Stamps or TANF (which were selected from Work First and may be other than TANF). This was from 106 matches between the low-income programs with people receiving both UI and TL in the same month.

For test 3, we selected 30 people receiving benefits from L&I medial Information Payment System (MIPS) and from DSHS Division of Vocational Rehabilitation (DVR). This was from 1,105 matches between MIPS and DVR.

For test 4, we selected 10 people receiving benefits from DSHS Medicaid program and from HCA's Basic Health Plan. This was from 7,869 matches between MMIS and BHP.

For test 5, we selected 10 people receiving benefits from DSHS Medicaid program and from DSHS DVR. This was from a population of 12,363 matches between MMIS and DVR.

For test 6, we selected 49 people receiving benefits from multiple agencies. There were 48 people receiving benefits from all four agencies; there were 2,626 receiving benefits from three agencies; and there were 55,085 receiving benefits from two agencies.

Results from benefit overlap work

Of the 205 matches of benefits that were selected for investigation:

- 11 were found to likely have income-based eligibility exceptions (In a very few cases, the person would still be eligible but at a reduced benefit level.)
- 18 cases were not researched because of SSN problems.
- Three cases not concluded for other reasons.
- Two incorrect UI wage file amounts reported and the selected person was eligible for services.

The state determined that the remaining 171 cases were appropriate and provided the following reasons.

One test shows people receiving UI and L&I time loss benefits in the same month. UI's Total Temporary Disability Unit reviewed this file to determine if there were potential issues as state law prohibits individuals from receiving UI and L&I time loss for the same weeks. The time loss for these people is a lump sum payment made over time when the actual time loss claim had been closed. This installment or payment is not real L&I time loss and does not affect the UI claim. It is not remuneration or a payment for a disability that prevents the individuals from being available for, seeking and accepting work. From L&I's perspective, conflict could

arise collecting time loss and concurrently drawing UI benefits. Benefit information is routinely exchanged with Employment Security (ES) for this information. Should the circumstance arise that an individual is inappropriately receiving both benefits, ES makes the identification and assessment of an overpayment. However, it is Labor and Industries (L&I) that verifies the appropriateness of wages reported in a quarter where time loss is also being paid. Wage information is also obtained from ES routinely; it is reviewed by the department's Fraud Manager, level 5. Should the circumstance warrant, L&I issues an overpayment and, if appropriate, a fraud assessment with an administrative penalty.

Other tests shows people who are receiving benefits from UI and/or L&I Time Loss and one or more DSHS programs. The receipt of any of the assistance available through these DSHS programs does not affect UI benefits. The time loss payments appearing on this report do not conflict with the payment of UI, nor do any assistance payments received from DSHS program. There is no L&I conflict among benefits received. There is no prohibition under Title 51 to receive Medicaid, Food Stamps or TANF and worker compensation benefits. Also there is no L&I conflict among DSHS low-income benefits and the receipt of time loss compensation under Title 51. There is no conflict between collecting a Permanent Partial Disability (PPD) award under Title 51 and Unemployment Benefits (UI). Also, there is no conflict or prohibition around benefits received from the Health Care Authority (HCA) and L&I. L&I limits the payment of medical bills to services rendered to the injured worker and for the accepted conditions under the claim. Medical care for non-industrial related conditions or for family members must come from a different insurance carrier. HCA responded that no other benefits were inappropriately overlapped because of different eligibility requirements and in some cases the people covered under Medical were different than the people covered under Basic Health.

DVR provided the same response for all of their sampled clients because VR is not an entitlement program and eligibility does not depend on a means test. The division does not deny employment services because an individual is currently employed, is receiving other benefits such as Medicaid, social security, unemployment, TANF, etc. After reviewing the identified cases for the test on UI and WC electronically, DVR determined that all the individuals met the criteria for eligibility for DVR services and were being served appropriately. The division could not address the appropriateness of benefits provided by other programs, as it does not work with the same eligibility criteria.

Peer States Selection

Five states survived our rigorous comparison procedure. We originally selected six states, first due to their population, as peer states for comparison purposes to the state of Washington for this project. These states are Massachusetts, Indiana, Tennessee, Missouri, Wisconsin, and Oregon. All of these states, except for Oregon, have a population (as of 2000) within approximately 500,000 of Washington's population.

We analyzed the census data for each state selected in the following demographic characteristics: male versus female composition, median age, various household type measures (four measures were included), educational achievement (two measures), disability (two measures), immigration status, poverty status (families

and individuals), employment status, and household income measures (three separate measures including public assistance income).

We weighted the unemployment rate, the per capita income and the poverty rate at 2.5 times the myriad of other measures. The results indicated that all states selected were within a total 5 percent variation for all measures combined except for Tennessee. As such, we eliminated Tennessee as a comparable state and retained the others. Even though Oregon's 2000 population is approximately 2.5 million less than Washington's, it was included as a peer state because it shares so many similarities with Washington in the other demographic characteristics noted previously. In fact, it had the lowest variance of demographic comparisons of any state.

Other Work

The background section discusses attributes of performance measures. We used this general information along with performance measurement systems from other states to assess the adequacy of program performance measures.

The detail in the Appendices for each section describes the work done in validating the accuracy of reported performance results and determining the reasonableness of the systems used by the programs in performance measurement. These Appendices also describe the data used for financial analysis and its source.

APPENDIX D - WORKFIRST

Program Objectives

Federal Objectives: The objectives of the federal, state and tribal Temporary Assistance For Needy Families (TANF) programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives. The programs are designed to end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families.

State Objectives: State legislative objectives for Washington's WorkFirst Program are focused on obtaining paid, unsubsidized employment for qualified individuals. The departments administering WorkFirst are to collaborate with employers, educational institutions, labor councils and other various community resources to develop effective work and job training programs. In addition to job training, emergency assistance may be provided to families in areas such as childcare, housing assistance, transportation expenses, food, medical costs, and employment related expenses.

Program Performance Measures

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated in the following table (Table 1.1). The federal performance measures focus on the *outcomes* of clients in the TANF program. The state measures appear to be more narrowly focused on the WorkFirst *activities*.

WorkFirst uses a three-tier performance measurement system. The first tier covers the activities conducted by all of the partner agencies (DSHS, ESD and DCTED are included in the scope of this audit). The following are the first tier measures with current targets and results provided parenthetically.

(1) Caseload: Measures the success at reducing the number of families dependent on public assistance. (Target: 54,763 cases, Actual: 51,907)

(2) Long-term exits from welfare: Measures the success at helping families to stay off welfare. (Target: 58.7% of July 2001 exits off TANF for 12 consecutive months, Actual: 56.6%)

(3) Jobs leading to exit from TANF: Measures the success at helping WorkFirst clients find unsubsidized jobs that allow them to leave welfare. (Target: 29.6% employed and left TANF within six months, Actual: 29.6%)

(4) Child support paid: Measures the success at increasing the incomes of families who are on or recently off public assistance, and increasing the

percentage of families who remain self sufficient. (Target: 33.4% of recent cases received at least one payment, Actual: 34%)

(5) Alternative assistance for applicants: Measures the success at identifying alternative sources of assistance for families that make a TANF grant unnecessary. (Target: 82.8% of applicants who withdrew TANF application received alternative assistance, Actual: 84%)

(6) Percent Remaining Employed: Measures the success at improving the capability of adults leaving public assistance to stay employed and increasing the percentage of families who remain self sufficient. (Target: 55.8% of cases that left TANF earned at least $2500 per quarter for four quarters, Actual: 53%)

(7) Percent increasing earnings: Measures the success in helping families increase their income after leaving welfare, and again, increasing the percentage of families who remain self sufficient. (Target: 37.6% of cases that left TANF increase earnings by 10% after one year, Actual: 37.7%)

We believe these overall program measures, directed at case reductions and successful employment outcomes are valid and support expected levels of performance for this program. In connection with our review of systems used to report this information we learned that the alternative assistance for applicants measure (both target and actual) was going to be revised downward in October by approximately 20 percent due to errors discovered in the data accumulation process.

These measures appear to be working for those involved in the program and the effort needed to obtain the necessary data from agencies' systems is significant. However, we offer the following for consideration.

- The child support measure reports the percentage of cases that received a payment in the current month, without regard to the amount of the payment. A more meaningful measure of success would compare the actual amount received in child support payments as compared to what should have been received for the current month.

- The percent remaining employed measure is designed to report success at achieving self-sufficiency. We take issue with the target of $2,500 for two reasons: it is less than the state's minimum wage for full-time employment, and it doesn't account for the wide cost-of-living variations among different localities within our state. There is a similar issue with the increasing earnings by 10 percent measure. Depending on the starting point and whether self-sufficiency was achieved, the results may not measure the achievement of self-sufficiency. This recommendation does not address that part-time work is an improvement or meeting a target when the individual is at least working. We believe a meaningful measure could be developed that incorporates this consideration.

TABLE 1.1 TANF/WORKFIRST GOALS AND MEASURES (Parenthetical numbers correspond to the goal or measure noted on pg. 81)

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Performance Measures
(1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives	Medicaid/SCHIP enrollment rate of former recipients and increases in the rate		MAA has goal of increasing enrollment of children in medical assistance programs
	Food Stamp participation rate of low-income working households with children and increases in the rate	Diversion assistance	(5) Increase the percentage of families who apply for TANF, who are eligible, but for whom TANF becomes unnecessary when alternative sources of support are identified
(2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage		Reduce welfare caseload by 20% within four years	(1) Reduce the number of Washington families that are dependent on public assistance
	Job entry rate and increases in the rate		(3) Increase the number of clients moving from WorkFirst to employment to self-sufficiency
	Job retention rate and increases in the rate	Help people become and stay employed	(2) Increase the percentage of families who remain self-sufficient after leaving TANF
			(6) Improve the capability of adults who leave welfare for work to remain employed
	Earnings gain rate and increases in the rate	Raise the earnings of clients	(7) Increase the earnings of former TANF recipients
	Performance in payment of child-care subsidies	Diversion assistance	(4) Increase incomes of families who are or were receiving public assistance with the child support due from non-custodial parents
(3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies	Increase in the family formation and stability		DSHS has a goal to reduce unintended pregnancies among women receiving Medical Assistance (MAA ties it to TANF)
(4) Encourage the formation and maintenance of two-parent families	Increase in the family formation and stability	Do a better job than the old welfare program (AFDC)	Not directly measured

As indicated in the analysis above, WorkFirst performance measures (those numbered) line up very well with the federal and state legislative goals and the federal performance measures developed by the Administration for Children and Families in the U.S. Department of Health and Human Services. However, the following are exceptions to this general assessment.

- WorkFirst has a measure for obtaining child support while the federal measures include a measure for performance in child-care subsidies. The Workfirst measure supports a certification, required by federal legislation, that the state will operate a child support enforcement program. As such, that measure is appropriate for other purposes but there is no measure for performance in child-care subsidies. However, since this measure has not been used for determining bonus awards (discussed below), it is understandable that this measure does not receive a high priority.

- Measure number 5 partially addresses the federal measure of increasing Food Stamp Program participation. However, the focus of this WorkFirst measure is to use the Food Stamp Program as one of many means to divert eligible participants from TANF assistance as is articulated in state legislative direction.

- While not addressed by WorkFirst, DSHS uses an internal measure that addresses the federal measure regarding the Medicaid/SCHIP enrollment.

- DSHS also has a measure regarding reducing unintended pregnancies in medical assistance programs and TANF. This is somewhat correlated to the federal legislative objective of reducing the incidence of out-of-wedlock pregnancies.

- WorkFirst does not have a measure that relates to the federal measure of increasing family formation and stability. However, since this measure has not been used for determining bonus awards (discussed below), it is understandable that this measure does not receive a high priority.

The federal government accumulates performance measures in order to award a "High Performance Bonus" to states that achieve high performance in the measures listed above. It ranks the states in each performance measure (columns (1) and (3) below). It also ranks the state for its improvement in these measures (columns (2) and (4) below). The following are the state's results of the most recent two years performance award process:

	(1)	(2)	(3)	(4)
PERFORMANCE MEASURES	**Ranking**	**Improvement**	**Ranking**	**Improvement**
* Measures that earn bonus awards	**2000**	**From 1999**	**1999**	**From 1998**
Job entry rate and increases in the rate*	41	40	36	46
Job retention rate and increases in the rate	21	10	18	43
Earnings gain rate and increases in the rate	15	13	21	2
Success in the Workforce*	15	6	18	31

The states are awarded a performance bonus based on two measures, the "job entry rate and increases in the rate" and "success in the workforce." The "success" measure is a combination of the job retention and the earnings gain rates measures. Since Washington did not place in the top 10 ranking (based on 1999 results) for these measures, the state was not awarded a performance bonus in 2000. The 2000 awards ranged from $1.1 million to $36 million. However, the state received a $13.7 million award in 2001 for ranking sixth in improvements in the Success in the Workforce measure. The 2001 awards ranged from $0.4 million to $41.7 million.

Of interest is that, until 2002, the federal government had not developed financial incentives for all of its legislative goals and performance measures. Of the seven federal performance measures, only three have been used to award monetary benefits. This is changing in 2002 as follows:

- The number of low-income working households with children receiving Food Stamps as a percentage of the number of low-income working households with children in the state will be measured. The three states with the highest scores will receive bonuses. Seven states will be awarded bonuses for the highest improvement rates for this measure.

- The number of individuals receiving TANF benefits who are also enrolled in Medicaid or SCHIP, who leave TANF as a percentage of individuals who left TANF will be measured. The three states with the highest scores will receive bonuses. Seven states will be awarded bonuses for the highest improvement rates for this measure.

- The measures for performance in childcare subsidies involve accessibility, affordability and quality of Child Care and Development Fund (CCDF) services. The federal government will rank the states that choose to compete on the child care measure on each component of the overall measure and award bonuses to the 10 states with the highest composite rankings. They will award bonuses only to the top 10 qualifying states that have fully obligated their CCDF Matching Funds for the fiscal year corresponding to the performance year and fully expended their CCDF Matching Funds for the fiscal year preceding the performance year.

- Regarding family formation and stability, the federal government will measure the increase in the percent of children in each state who reside in married couple families, beginning with a comparison of CY 2000 and CY 2001 data from the Census Bureau. For any given subsequent year they will compare a state's performance on this measure to its performance in the previous year. They will rank the performance of those states that choose to compete on this measure and will award bonuses to the 10 states with the greatest percentage point improvement in this measure.

Based on information from the agencies, the state intends to compete for funding in these measures.

In comparison to the selected peer states, Washington is similar to the average of these states in all measures except for job entry, in which Washington trails the other states, and earnings rate gains (in 2000), in which Washington leads the other states, as follows.

	FY 2000 Performance Rates		FY 1999 Performance Rates	
Peer States Comparisons	**Washington**	**Average**	**Washington**	**Average**
Job entry rate and increases in the rate	41	28.6	36	24.6
Job retention rate and increases in the rate	21	16.8	18	19.4
Earnings gain rate and increases in the rate	15	29.4	21	20
Success in the Workforce	15	19	18	19.8

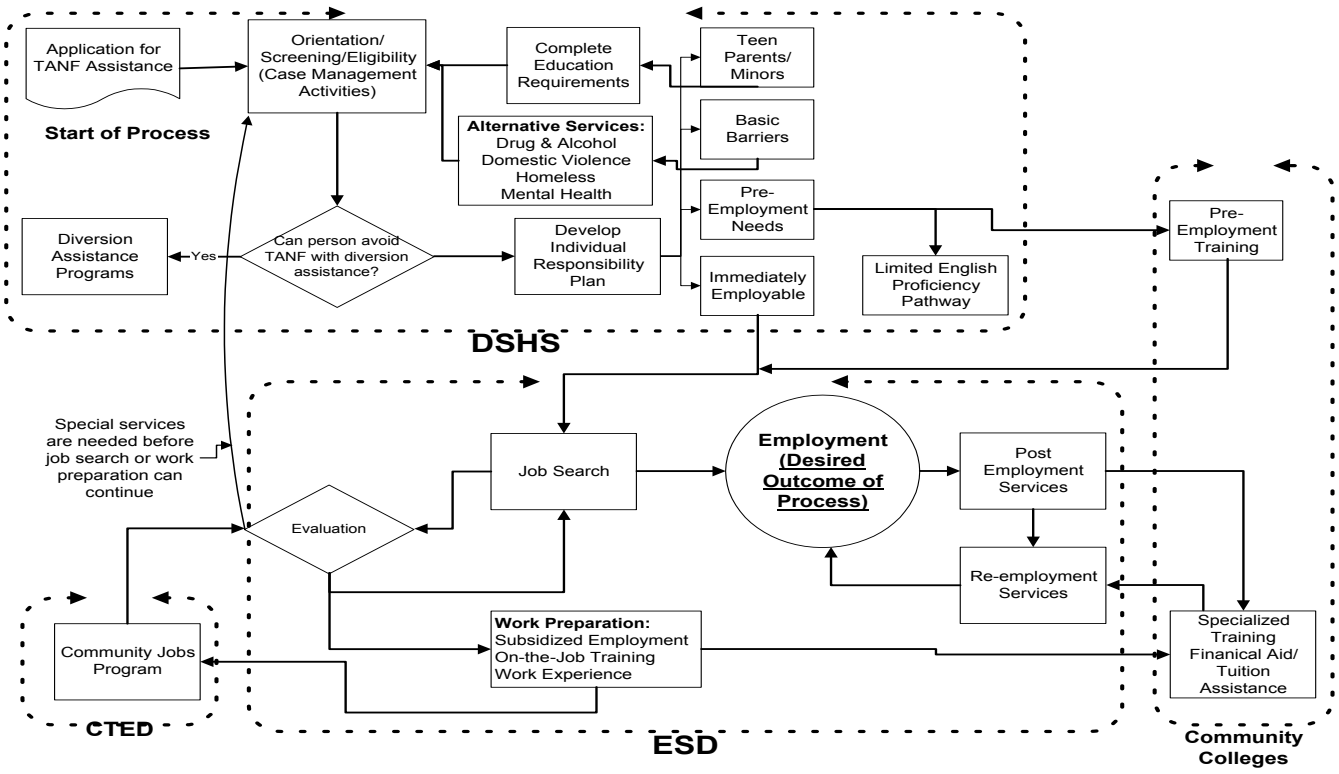
The WorkFirst program continues to be the subject of various studies and reviews. The Joint Legislative Audit and Review Committee (JLARC) has issued a series of evaluations of the WorkFirst program. In connection with the JLARC studies, the Washington State Institute for Public Policy has also issued several studies and evaluations. In addition, the *WorkFirst Study 3000 Washington Families*, begun in 1999 will continue to analyze the long-term process of leaving welfare. The various studies and evaluations have made recommendations regarding the management and operation of the WorkFirst program. We have not repeated any findings or recommendations from these studies in this report. However, the conclusion from the JLARC Briefing Report dated January 22, 2001 that WorkFirst is meeting legislative goals is supported by this audit.

As previously discussed, federal legislative goals are considered in this project. The federal goals do not appear to be a focus of these other studies. WorkFirst receives the bulk of its funding from the federal TANF program and should be concerned with such federal objectives. While the WorkFirst program concentrates on the employment outcome portion of federal objectives, it does not address performance measures for other federal objectives. Regarding employment measures, Washington has performed well recently in relation to other states in success in the workplace measures, but has not done well in job entry measures. The ability to perform in these measures has a direct financial impact on the program's funding. Of concern, is the apparent lack of certain other performance measures that will also carry financial incentives this year.

Performance Reporting and Management Control Systems

WorkFirst uses a three-tier performance measurement system. The first tier measures previously discussed cover the activities conducted by all of the partner agencies (DSHS, ESD and DCTED are included in the scope of this audit, the State Board for Community and Technical Colleges is not included). The relationship of these partner agencies to how participants move through the program is illustrated in the following diagram. The following flow chart does not reflect that short-term job skills training can occur during job search. It also does not reflect that clients may go from job search to full-time training (customized job skills training, high-wage, high-demand training, or seasonal worker training) and then directly back to job search once these types of full time training are completed.

WorkFirst Participant Flow Diagram



The program partners use common systems to manage a majority of program activities. The two major systems used are the Automated Client Eligibility System (ACES) for eligibility and the Job Automated System (JAS) for managing participant activities.

The following indicates the systems used to manage and report results of the first-tier measures.

WorkFirst Measure	Targets	Actual	System
Caseload	54,763	51,907	ACES/CARD
Long-term exits from welfare	58.7%	56.6%	ACES/CARD
Jobs leading to exit from TANF	29.6%	29.6%	CARD/JAS
Child support paid	33.4%	34%	DCS/SEMS
Alternative assistance for applicants*	82.8%	84%	ACES/JAS UI/SSPS
Percent Remaining Employed	55.8%	53%	CARD/UI
Percent increasing earnings	37.6%	37.7%	CARD/UI

*- The targets and actual percentages for alternative assistance will be revised to an approximately 20% lower level due to corrections in the data accumulation and reporting methodology.

The following are the second tier, or feeder measures used to manage the achievement of the first tier measures and the systems used to manage and report results of these measures.

WorkFirst Measure	July 2002 Targets	System
Adult Caseload	34,991	ACES
Movement from Job Search to Work	38.7%	JAS
High-Wage Placements	$8.81	UI Wage/ACES
Customized Job Skills Training Placements	75%	SBCTC/UI Wage
Community Jobs Placements	56.4%	DCTED/UI Wage
Workplace Labor Exchange (WPLEX) Real Contacts	24.5%	JAS
Customer Accountability	33.8%	JAS

The information supporting these measures is captured in a variety of state information systems. ACES is the eligibility determination system used for most economic assistance programs, including WorkFirst. ACES provides information to a database (CARD) that is used by the Office of Financial Management (OFM) to extract measure-specific information through the use of queries. JAS is the system used to monitor caseload and contains employment data. Childcare payments to individuals and providers are processed with the Social Services Payment System (SSPS). Alternative services for WorkFirst participants are tracked in JAS. SSPS tracks alternative services for a far broader group of clients, and DSHS does not use its data when measuring WorkFirst participation. The Division of Child Support (DCS) in DSHS uses the Support Enforcement Management System (SEMS), which produces a "Paying Cases" report that is provided to OFM in compiling the WorkFirst results. ESD's Unemployment Insurance (UI) systems are used to capture UI benefits as well as the wage files for reporting employment and wage progression results. ESD also uses the WPLEX system, which interfaces with JAS, to monitor the activities of participants in their search for work. Management Report and Data Analysis (MRDA) in DSHS provides three reports generated by inquiries from the ACES and UI wage files to OFM for non-TANF assistance and compiling employment and wage progression results.

Some of these systems share data with other agencies but systems are not generally integrated. Most of these systems were not designed to support performance measures, but rather are designed to support financial and program administrative needs. Each information system uses internal controls directed at transaction validity and accuracy and these systems are generally subject to internal and external audits. As a result, our approach to determining measure reliability focused on the processes used to convert data from these systems to the measure results.

Of special note is the Customer Accountability measure. The results of this measure are provided by JAS and are available on DSHS' website. This measure indicates that less than 40 percent of clients who are required to participate in

the various work activities are actually participating on a full-time basis (at least 32 hours per week). However, this measure is somewhat misleading in that certain clients are not participating for valid reasons. The JAS generates the customer accountability measure for each Community Services Office (CSO) but does not provide a summary report on a statewide basis. As such, we are unable to provide any conclusions about the success of engaging clients in required activities.

We inquired as to the status of TANF participants to approximate the accountability information. DSHS ESA provided the following information as of July 2002 in response to our inquiry.

- Total TANF cases were 51,903, of which 29,410 (57%) were participating in WorkFirst. In July 2002, 91.3% of the clients who were ready to participate (not exempt or in alternative services) were conforming to program participation requirements by working, looking, or preparing for work.

- Based on an unduplicated (participant counted only one time even if participating in more than one activity) WorkFirst participant count for July 2002, of the 29,410 who were participating in WorkFirst:

  - 21,097 participants (91.3% of the clients who were ready to participate) were working, looking, or preparing for work.

  - 8,313 participants were not ready to participate, of which approximately 623 were exempt and 7,690 were in alternative services, such as family violence prevention programs, substance abuse treatment or medical treatment.

- Of the 21,097 participants who were working, looking, or preparing for work, a duplicated (participant counted in more than one activity) client count of WorkFirst activities found that 14,018 adults, minors, and teens were in some type of basic education at some time during the month of July 2002. This was either as a stand-alone activity or combined with another type of activity. 670 TANF recipients received pre-employment training at some time during Spring 2002.

This information shows a larger proportion of the WorkFirst caseload in participation status than the new overall customer accountability measure as this information includes other types of participation, such as the efforts of clients who cannot participate full-time, are in barrier removal activities or are exempt because they are unable to participate. It also includes clients who are in sanction or referral status, as the state is actively working to engage the client in the WorkFirst program.

The federal government tracks a similar measure on a national basis but uses different definitions than those used in the customer accountability measure. The following chart shows how Washington compares on a national basis and to the peer states. Washington's participation rate is in the top two states in both the national and peer states comparison. The following chart indicates the percentage of those adults participating in various activities.

Federal Fiscal Year 2000	WA	National Average	Rank	Peer Average	Rank
ADULTS WITH HOURS OF PARTICIPATION 1/	42,476	11,688	N/A	10,276	N/A
AVERAGE MONTHLY NUMBER OF ADULTS WITH HOURS OF PARTICIPATION BY WORK ACTIVITY AS A PERCENT OF THE NUMBER OF PARTICIPATING ADULTS					
UNSUBSIDIZED EMPLOYMENT	40.3%	60.6%	41	44.6%	4
SUBSIDIZED PRIVATE EMPLOYMENT	1.3%	0.6%	7	1.7%	3
SUBSIDIZED PUBLIC EMPLOYMENT	4.9%	0.7%	2	0.3%	1
WORK EXPERIENCE	4.5%	9.8%	31	14.8%	3
ON-THE-JOB TRAINING	0.2%	0.3%	25	0.1%	2
JOB SEARCH	10.6%	12.5%	35	14.8%	4
COMMUNITY SERVICE	48.0%	6.5%	2	3.5%	1
VOCATIONAL EDUCATION	1.1%	8.7%	50	3.4%	5
JOB SKILLS TRAINING	6.5%	2.7%	12	11.1%	6
EDUCATION RELATED TO EMPLOYMENT	1.6%	2.7%	28	8.1%	6
SCHOOL ATTENDANCE	5.4%	4.0%	18	6.6%	3
SATISFACTORY PROVIDING CHILD CARE	0.0%	0.1%	N/A	0.0%	N/A
ADDITIONAL WAIVER ACTIVITIES	0.0%	4.9%	N/A	24.8%	tie for 6th
OTHER	10.3%	4.3%	8	3.3%	1
Amount of Double Counting	34.59%	18.28%		37.24%	
1/ ADULTS PARTICIPATING IN MORE THAN ONE ACTIVITY ARE INCLUDED ONCE IN THIS TOTAL.					

Because adults can participate in more than one activity during a year, there is some double counting of activities. The extent to which Washington's data is double counted is comparable to the peer states but is more than the national average. This makes the peer states comparison more reliable that the national averages. On a national basis, Washington ranked low in unsubsidized employment, job search and vocational education. Washington ranked highly in the subsidized employment, job skills training and community service categories.

Management control systems used for WorkFirst can be found in each of the three agencies that administer this program. DSHS maintains a central Internal Audit function. ESA manages ACES and JAS using a quality assurance function to perform management evaluations of its CSOs. However, the management evaluations used for WorkFirst are not as rigorous as those used in the Food Stamp Program. The Workforce Investment Team works on quality control and continuous improvement initiatives. ESD uses an internal audit function for system integrity and internal control monitoring. While DCTED does not have an internal audit function, their program managers involved in WorkFirst programs use a variety of quality assurance procedures.

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from DSHS for WorkFirst as well as TANF. We also obtained similar information from ESD and DCTED regarding their portion of the WorkFirst program. Using the departments' existing definitions of direct services and administrative costs, the following chart indicates the administrative cost efficiency of this program.

WorkFirst/TANF:	Administration Costs %	Benefit Costs	Administration Costs
Economic Services Administration	6.73%	$ 699,707,785	$ 47,101,202
Employment Security Department	5.26%	38,481,243	2,025,329
Community Trade & Economic Development	8.68%	18,657,294	1,619,214
Total WorkFirst and TANF Combined	6.70%	$ 756,846,322	$ 50,745,745

The benefits include direct assistance to clients as well as services and case management activities to conduct the program. As such, this analysis does not measure the fiscal productivity of direct services (e.g. case management productivity). The overall administrative cost percentage of 6.7 compares favorably to other programs within the state that use a case management approach to service delivery.

In order to determine how efficient this program is in comparison to other states, we obtained TANF fiscal information from the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services for the federal fiscal year ended September 30, 2000. While this is not a perfect comparison because information is from a different time period, ACF tracks only the federal portion of the program and uses different categorization of costs for presenting financial information, it is still useful. The results of this comparison are presented in the following chart. Washington's administrative cost efficiency is significantly better than the national average ranking 13th out of 50 states. In comparison to peer states, Washington is average, ranking third out of six states.

	Administration Costs %	Total Federal Expenditures	Administration Costs	Washington's Rank
Washington	8.74%	258,845,308	22,616,732	
Average of Peer States	8.34%	207,757,654	17,327,612	3 out of 6
National Average	12.06%	249,663,458	30,113,722	13 out of 50

Whether comparing internally to other state programs or externally to national averages or peer states, the Washington program is performing fairly well in fiscal productivity and cost efficiency.

APPENDIX E - FOOD STAMP PROGRAM

Program Objectives

Federal Objectives: The objective of the Food Stamp Program is to help low-income households buy nutritious food. The federal government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses states for 50 percent of their costs to administer the program. State agencies certify eligibility and provide benefits to households.

A state administering the Food Stamp Program must sign a federal/state agreement that commits it to observe applicable laws and regulations in carrying out the program. Although the welfare reform legislation provided additional administrative flexibility, the Food Stamp Act remains highly prescriptive. Both the law and regulations prescribe detailed requirements for: (1) meeting program goals, such as providing timely service and rights to appeal; and, (2) ensuring program integrity, such as verifying eligibility, safeguarding coupon inventories, establishing and collecting claims for benefit overpayments, and prosecuting fraud. A state must reconcile the funds exiting the Electronic Benefits Transfer (EBT) system and paid to retailers with amounts drawn from its EBT benefit account with Treasury

A state receives rewards or penalties based on its error rate. The state's administrative funding rate can be enhanced through a reward, or a portion of the state's value of benefits in excess of the national average must be paid by the state (penalty). This penalty can be directly repaid to the federal government, or subject to approval by the Secretary, a reinvestment of the liability in unmatched state dollars can be made in activities designed to reduce errors. There is a specific legislative requirement for corrective action by any state with an error rate above 6 percent.

State Objectives: The state Legislature authorizes DSHS to establish a food stamp program in accordance with federal laws, regulations, and rules.

Program Performance Measures

Measuring Food Stamp Program participants' outcomes as they relate to participants' health would be extremely challenging because determining the extent to which food provided under this program affected the health of participants is difficult. As a result, the federal objectives have historically focused on measuring the accuracy of the process used to provide benefits. The federal program measures how accurately eligibility and benefit amounts are determined (the error rate) and the accuracy of eligibility determinations for those excluded (denied) from the program (the negative error rate). These measures are valid to determine the effectiveness of the process and will continue under the new FNS guidelines.

The Food Stamp Program focuses its performance measures on the federally mandated error rate of claim payment accuracy as is show in Table 2.1.

TABLE 2.1 FOOD STAMP PROGRAM GOALS AND MEASURES

FOOD STAMPS			
Federal Legislative Goals	**Federal Performance Measures**	**State Legislative Goals**	**State Measures**
The objective of the Food Stamp Program is to help low-income households increase food purchasing power for a more nutritious diet.	Accuracy of eligibility and benefit amount determination both underpayment and overpayment	The state Legislature authorizes DSHS to establish a Food Stamp program in accordance with federal laws, regulations, and rules.	Accuracy of eligibility and benefit amount determination both underpayment and overpayment
	Correctness of decisions to deny, terminate, or suspend benefits		Correctness of decisions to deny, terminate, or suspend benefits

The results of these measures for the federal fiscal year ended September 30, 2001 in comparison to national averages are as follows:

Performance Measures	**WA**	**Rank**	**National Average**	**% Better (Worse)**
Payment Error Rate	8.53	34	8.66	1.50
Negative (Denied) Error Rate	8.59	40	8.3	(3.49)

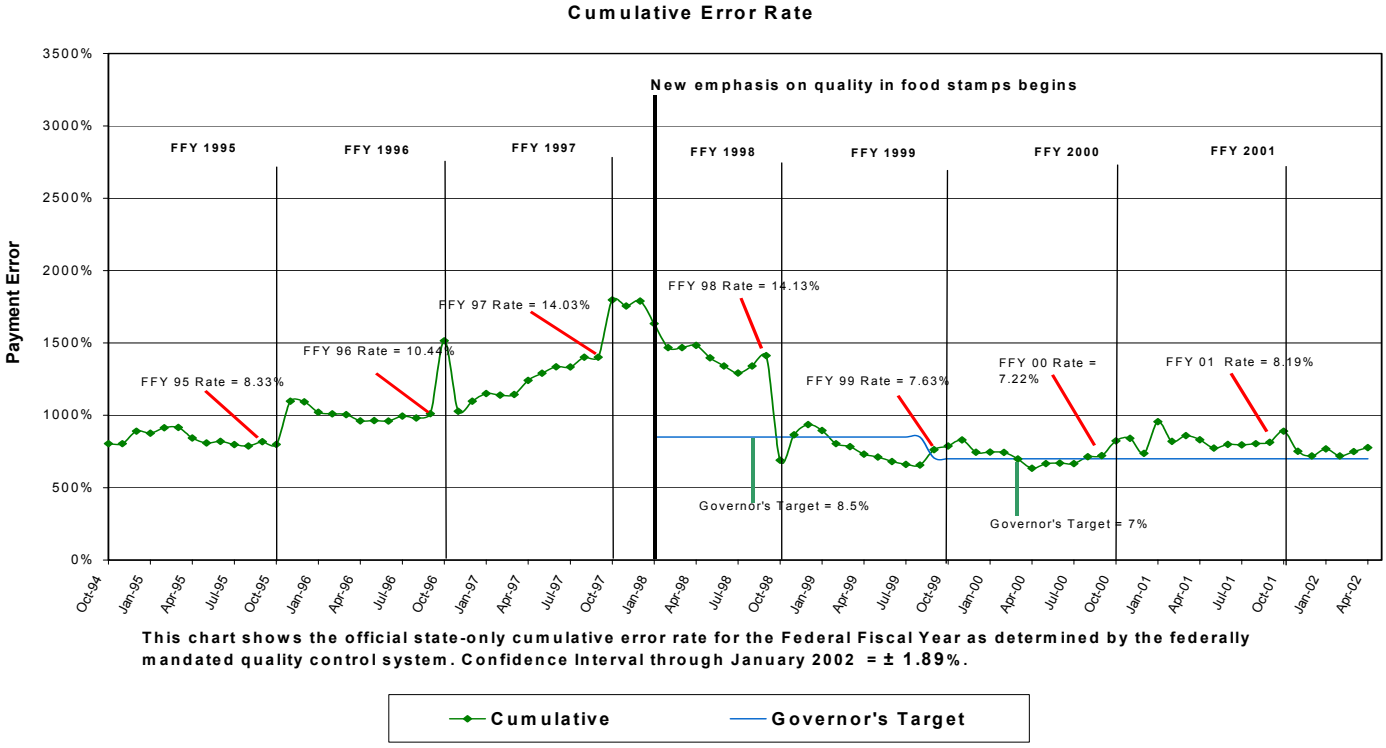
Compared to national averages, Washington's Food Stamp Program performs better for payment error rate but worse for the negative error rate. However, its ranking among the states is in the lower third of all states.

This is confirmed by a comparison to peer states as follows:

	Washington	Average of Peer States
Payment Error Rate	8.53	9.688
Negative (Denied) Error Rate	8.59	7.64

Three of the five peer states incurred liabilities related to their performance, while Washington did not. While two of the peer states performed better than Washington, no peer state received enhanced funding for the federal fiscal year ended September 30, 200l.

However, as briefly mentioned above the state has made dramatic improvement in its error rate. ESA provided the following chart that illustrates this improvement.



As noted under WorkFirst, there is a federal TANF measure regarding Food Stamp participation rates. FNS has incorporated a performance measure related to participation rates of eligible people in its strategic plan. While participation is not incorporated into the state's performance measurement system, the federal trend to incorporate Food Stamp participation rates into performance measures indicates that this measure should be addressed by the state. FNS has

published a study of participation rates in 1999 and changes in the rate since 1994. The following chart reflects the relative performance of Washington to national rankings and the average of the peer states.

Peer States Comparisons	Washington	Average
Participation in 1999	57%	57%
National Rank	27	28
Improvement since 1994	-21%	-18%
National Rank	40	32

Washington, as well as the average of peer states, ranks in the middle of all states in its 1999 participation rates. Almost all of the states showed a decline in participation rates from 1994 to 1999. Washington was in the lowest quartile, but was not significantly worse than the average of the peer states. A more recent measure regarding the number of households participating in the Food Stamp Program indicated that Washington increased its participation as measured by the number of households by 16.4 percent from July 2001 to July 2002. This is substantially higher than the national average of a 10.1 percent increase and places Washington in 10th place. Among the six peer states, Washington ranks third for this measure. Washington is doing better at making participation rate improvements than the national average and is performing similar to the peer states using this more recent information.

Performance Reporting and Management Control Systems

Eligibility for food stamps is based primarily on income and resources. Although welfare reform increases state design options that can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits. Benefit amounts vary by household size and income.

The application process includes completing and filing an application form, being interviewed and having certain information verified. In addition to using information supplied by the recipients, state agencies use data from other agencies, such as the Social Security Administration, the Internal Revenue Service, and the State Employment Security Agency, to verify the applicant's identity and income. The state of Washington uses such information on a regular basis.

To ensure that states operate in compliance with the law, program regulations, and their own Plans of Operation, each state is required to have a system for monitoring and improving its administration of the Food Stamp Program, particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management reviews, reviews of quality control systems, and reporting to the FNS on program performance.

The Food Stamp Program maintains an extensive quality control system required by law and regulation. The system provides state and national measures of the accuracy of eligibility and benefit amount determination (often referred to as

payment accuracy), both underpayment and overpayment, and of the correctness of decisions to deny, terminate, or suspend benefits.

The state is required to select a statistically valid sample of cases and to review the cases for eligibility and benefit amount. The state selects approximately 1200 cases evenly throughout the year. The state submits findings of all sampled cases, including incomplete and not-subject-to-review cases, to an automated database maintained by the federal government. State quality control data allow a state to be aware on an ongoing basis of its level of accuracy, and allow for the identification of trends and appropriate corrective action. State data is reviewed by FNS, and they re-sample approximately 40 percent of the state's sample to provide feedback to each state on its quality control system and to determine payment error rates.

The state provides an additional step in its quality control process that is not required by FNS. It provides feedback to the field staff through monthly meetings to review the results of the management evaluation review. This allows field staff to react quickly to trends established by the monthly reviews.

Performance in Fiscal Productivity and Efficiency

The federal government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses states for 50 percent of their costs to administer the program. This structure is somewhat unique among the various programs included in the scope of this audit and is likely a major factor in the administrative cost percentage of 10 percent being somewhat higher than other state programs. The Food Stamp Program does have higher administrative costs when the federal requirement for quality control that is not present in other programs is considered. Administrative costs in relation to benefit payments for other states are not available for comparison purposes.

APPENDIX F - MEDICAID

Program Objectives

Federal Objectives: The objective of the Medical Assistance Program (Medicaid) is to provide medical assistance payments to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. Within federal rules, each state decides eligible groups, types and range of services, payment levels for services, and administrative and operating procedures.

Eligibility for Medicaid is based on categorical (e.g., families and children, aged, blind, and disabled) and financial (e.g., income/resources) status. States must provide services to mandatory categorically needy and other required special groups. States may provide coverage to members of optional groups and medically needy individuals (individuals who are eligible for Medicaid after deducting medical expenditures from their income). Eligibility criteria are specified in the state's plan.

States must provide limited Medicaid coverage for "qualified Medicare beneficiaries." The state plan must also provide that the state Medicaid agency will maintain individual records on each applicant and Medicaid beneficiary including date of application, date and basis for disposition, facts essential to determination of initial and continuing eligibility, provision of medical assistance, and basis for discontinuing assistance.

Medicaid expenditures include medical assistance payments for eligible recipients for services such as hospitalization, prescription drugs, nursing home stays, outpatient hospital care, physicians' services, expenditures for administration and training, the State Survey and Certification Program, and State Medicaid Fraud Control Units. Determinations of payment validity are made by individual states in accordance with approved state plans under broad federal guidelines.

State Objectives: The state requires its departments and agencies to administer the programs in accordance with federal laws as is necessary to qualify for federal funds for medical assistance, aid to dependent children, child welfare services, and any other public assistance program for which federal grants or funds are made.

MAA is responsible for managing the state's Medicaid program but many different divisions within DSHS provide Medicaid eligible services as the following chart (federal portion of assistance only) indicates.

Administration/Division	TITLE XIX	Percentage
Children's Administration	$31,095,881	1.28%
Juvenile Rehabilitation Administration	4,281,641	0.18%
Division of Mental Health	220,794,160	9.10%
Division of Developmental Disabilities	250,195,135	10.31%
Aging & Adult Services Administration	474,434,109	19.56%
Economic Services Administration	42,816,201	1.77%
Division of Alcohol and Substance Abuse	10,969,240	0.45%
Medical Assistance Administration	1,390,902,490	57.35%
	$2,425,488,857	100.00%

Since four divisions account for 96 percent of the funding, they are the focus of this performance audit. MAA is responsible for administration of the state's Medicaid program. As noted above, Medicaid services are also delivered through the Divisions of Mental Health (MSD), Developmental Disabilities (DDD) and the Aging & Adult Services Administration (AASA).

Program Performance Measures

MAA measures various Medicaid outcomes and access statistics as follows (targets are indicated parenthetically):

- Average monthly enrollment of children in Medical Assistance programs (535,000).
- Increase percentage of children receiving Early Periodic Screening Diagnosis Testing (EPSDT) within 30 days.
- Increase immunization rate for two-year olds enrolled in Medicaid health plans (58 percent).
- Reduce infant mortality rate among low-income families with Medicaid coverage. (6.9 per 1,000 births).
- Reduce percentage of unintended pregnancies among women participating in TANF (60 percent).
- Reduce rate of late or no prenatal care for pregnant women in Medicaid health plans (5.2 percent).
- Increase percentage of all provider claims adjudicated within 30 calendar days of receipt.
- Achieve medical assistance cost containment and utilization savings ($29.8 million)
- Increase grant costs avoided by Fraud Early Detection investigations ($6 million).

MAA has other measures related to customer service and program management. Such measures include fee for service and Healthy Options provider network adequacy, increase in enrollment in Take Charge and Medicaid Buy-in programs and customer satisfaction survey results.

The linkage between federal and state Medicaid program objectives and related performance measures, discussed below is illustrated in Table 3.1.

TABLE 3.1 MEDICAID GOALS AND MEASURES

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
		Reduce General Fund health care costs by 3%	Achieve Medical Assistance cost containment & utilization savings
Provide health care to (see below):	Improve access to care for elderly & disabled Medicare beneficiaries who do not have public or private supplemental insurance	Implement "Ticket to Work" Medicaid buy-in program	Increase the number of working disabled persons purchasing coverage through Medicaid Buy-in program
Recipients of income maintenance payments	Increase the percentage of Medicaid 2-year old children who are fully immunized	DSHS is authorized to comply with the federal requirements for the medical assistance program provided in the Social Security Act and particularly Title XIX of Public Law (89-97) in order to secure federal matching funds for such program.	Increase the immunization rate for two-year-olds in Medicaid health plans
Categorically needy	Provide states linked Medicare and Medicaid data files for dually eligible beneficiaries		Increase enrollment of children in Medical Assistance programs
Medically needy	Assist states in conducting Medicaid payment accuracy studies for the purpose of measuring and reducing Medicaid payment error rates		Increase percentage of all provider claims adjudicated within 30 calendar days of receipt
	Improve health care quality across Medicaid and SCHIP through the CMS/state performance measurement partnership project		Reduce infant mortality rate among low-income families in Medicaid. Also reduce death rate among African American and American-Indian infants
			Reduce rate of late or no prenatal care for pregnant women in Medicaid
			Reduce unintended pregnancies among women receiving Medical Assistance (MAA ties it to TANF)
			Increase grant costs avoided by FRED investigations

In contrast to federal legislation for the TANF program, Medicaid legislation reflects its nature as an entitlement program to provide payments for medical assistance to low-income persons, the categorically needy and the medically needy. Participant outcomes or other program expectations are not clearly articulated in federal legislation. The Center for Medicare and Medicaid Services (CMS) in the U.S. Department of Health and Human Services has not developed performance measures to the same extent as other programs discussed in this report. Other than the immunization rate for young children, CMS focuses on access and general processing accuracy goals. There are no federal financial incentives or penalties for performance. However, there are federal program requirements. If these requirements are not met the federal funds spent have to be returned. Furthermore, CMS and the OIG auditors frequently perform both financial and program reviews to determine if program services are delivered within federal guidelines.

Similar to Food Stamps, the Washington State Legislature's stated goal is to administer the programs to qualify for federal funding. In addition, budget language provides additional goals regarding cost containment and implementing the Medicaid buy-in program.

In summary, the regulatory environment in which MAA operates is not conducive to effective performance measurement systems. Yet MAA has developed a series of performance measures that comprehensively address the federal and state program objectives and additional measures that address participant outcomes and certain TANF program objectives.

As noted above, other divisions of DSHS are involved in Medicaid-funded programs. The client outcome measure included in the DSHS Accountability Scorecard for AASA is:

- Increase the number of low-income frail elderly and persons with disabilities who receive assistance in their own homes or home-like settings (36,405).

AASA also uses cost-efficiency measures in its long-term care services.

MHD has no performance measures included in the DSHS Accountability Scorecard. However, MHD does use measures of access to services in both state hospitals and community health organizations. MHD uses a system of Regional Support Networks (RSN) to provide services in the state. Most of the Medicaid funding flows through these RSNs. The RSNs are required to report information regarding the clients they serve. MHD then accumulates this information for reporting its access measures. The information accumulated by MHD tracks clients served by age and race/ethnicity. The following chart provides summary level information for the year ended June 30, 2001.

Access Measures	Served	Population	Rate
Penetration Rate: General Population	121,324	5,793,385	2.1%
Penetration Rate - Medicaid Population	72,375	1,001,905	7.2%
Penetration Rate: Community Inpatient: Per 1000 General Population	8,817	5,793,385	1.5
	Served	**Hours**	**Average Hr**
Outpatient Utilization Rates - Hours per Client	121,324	2,622,743	21.6
Outpatient Utilization Rates: Medicaid Population - Hours per Client	72,375	1,947,296	26.9
	Population	**# Days**	**Rate**
Inpatient Utilization Rates: Community Inpatient: Per 1000 General Population	5,793,385	129,047	22.3

While access to care is mostly an output measure, it is arguably an outcome measure as well. The more people receiving mental health services, the more likely that positive client outcomes will be achieved. However, output measures do not provide sufficient information regarding the effectiveness of services provided. As such, a balance of output and outcome measures would provide a more well-rounded performance measurement system. MHD is working to track additional outcomes. It is developing an automated tracking system that is being piloted starting in November 2002. Examples of outcome measures that could be used in a mental health setting are as follows:

- Days spent in the community versus institutions for adults with serious and persistent mental illness.
- Days worked for pay for adults with serious and persistent mental illness (MHD does track employment for a certain group of individuals).
- Percent of adults in mental health crisis not readmitted within 30 days (MHD has the statistics to support this measure).
- Percent of children with mental illness or mental retardation restored to competency and recommended to proceed with a judicial hearing.
- Percent of improvement of the emotional condition or behavior recorded in the initial assessment.

The Division of Developmental Disabilities (DDD) also has no performance measures included in the DSHS Accountability Scorecard but uses a variety of measures internal to DSHS. Most of these measures address where clients are located and agency monitoring activities as follows.

	June 30, 2002	
PERFORMANCE MEASURES	**ACTUAL**	**TARGET**
Move clients from Rehabilitative Health Center (RHC) to community settings	20	38
Certification review of residential support service agencies	87	72
90 day visits to children in foster care	98%	95%
Adult family home quality assurance visits	451	432
Monitoring crisis diversion outplacement program	16	16
Clients moved from State Mental Hospital	9	11
Community protection-clients moved	14	14

DDD also has a variety of measures contained in its Strategic Plan related to its goals and objectives, but with few exceptions these are measures of activities needed to accomplish the goals and not focused on results. As such, these measures are not included in this analysis. Similar to MHD, DDD's measures focus on staff activities and outputs. Once again, a balance of output and outcome measures would provide a more well-rounded performance measurement system. Examples of outcome measures that could be used in a developmental disabilities setting are as follows:

- Number of significant reportable incidents in developmental service facilities.
- Percent of people with improved quality of life.
- Percent of people on waiting list served within 12 months.
- Percent of adults receiving services who are not placed in a nursing home.

DDD uses a variety of service delivery methods, including institutional care, intermediate care facilities for the mentally retarded (ICF/MR facilities) and home and community-based services. Approximately 47% of its funding is received from federal sources (including Medicaid).

Several recently published audit and studies regarding DDD have indicated severe problems in the division. The Centers for Medicare and Medicaid Services (CMS) published a report in early 2002 regarding their assessment of the Community Alternatives Program (CAP) Waiver. CMS reported deficiencies in compliance with federal law and the State Medicaid Plan, eligibility, financial accountability and issues of care. DDD has disagreed with many of this report's findings, stating that the concerns about the oversight of care relate more to procedural documentation by case managers than to actual operations of the program. Eligibility and authorized services issues appear to stem from management information system problems and new policy implementation.

Eligibility and information system issues were also major themes in two other recently published reports that are discussed in a following section.

In summary, while AASA also employs a client outcome measure, the other Medicaid programs (MHD and DDD) could use outcome measures to provide a more balanced performance measurement system.

Performance Reporting and Management Control Systems

Performance measures for MAA can be found in three different performance reporting systems. These systems are the DSHS Accountability Scorecard, MAA's Performance Agreement and the OFM Performance Progress Report. As is noted in the following chart these three systems are not well integrated. We would not expect to see more detailed MAA measures in the overall DSHS scorecard, but we would expect that if a measure were in the scorecard it would be in the other systems. In addition, we noted that the targets either were not the same or were inconsistently stated between performance reporting systems. We also noted that certain targets and measures changed during the time we conducted this project.

PERFORMANCE MEASURE (Targets are indicated parenthetically)	DSHS Accountability Scorecard		Dennis Braddock/Doug Porter Performance Agreements			OFM Performance Progress Report	
				6/30/02		6/30/02	
	6/30/01	6/30/03	6/30/01	**Actual**	**Target**	**Actual**	**Target**
Average monthly enrollment of children in Medical Assistance programs (535,000).	519,975	525,400	None	None	None	536,046	536,600
Increase percentage of children receiving EPSDT screen within 30 days.	None	None	None	30%	Increase Rate	None	None
Increase immunization rate for two-year olds enrolled in Medicaid health plans (58%).	None	None	58.6%	58.6%	60.0%	59.9%	57.0%
Reduce deaths of infants (Note 1)	5.2	4.7	None	None	None	None	None
Reduce deaths of African-American and American-Indian infants (Note 2)	7.6	7.6	None	None	None	None	None
Reduce infant mortality rate among low-income families with Medicaid coverage. (6.9 per 1,000 births).	None	None	None	None	None	7	6.5
Reduce percentage of unintended pregnancies among women participating in TANF (60%).	None	None	15,554	15,341	12,103	71.4%	62%
Reduce rate of late or no prenatal care for pregnant women in Medicaid health plans (5.2%)	None	None	None	None	None	5.52%	5.25%
Increase percentage of all provider claims adjudicated within 30 calendar days of receipt	None	None	None	None	None	97.92%	90%
Achieve medical assistance cost containment & utilization savings ($29.8 million)	None	None	$0	$43.6m	$29.8m	None	None
Increase grant costs avoided by Fraud Early Detection (FRED) investigations ($6 million)	$1.6m	$7.8m	$5.5m	$6.22	$6.0m	None	None
(Note 1) Actual reported was 5.8 per DOH at CY2001							
(Note 2) Actual reported was 11.21 per DOH at CY2001							

The information used to generate performance reporting for MAA is obtained from a variety of sources as follows.

PERFORMANCE MEASURE	SOURCE
Average monthly enrollment of children in Medical Assistance programs (535,000).	(1)
Increase percentage of children receiving EPSDT screen within 30 days.	(2)
Increase immunization rate for two-year olds enrolled in Medicaid health plans (58%).	(3)
Reduce infant mortality rate among low-income families with Medicaid coverage. (6.9 per 1,000 births).	(4)
Reduce percentage of unintended pregnancies among women participating in TANF (60%).	(5)
Reduce rate of late or no prenatal care for pregnant women in Medicaid health plans (5.2%)	(6)
Increase percentage of all provider claims adjudicated within 30 calendar days of receipt	(7)
Achieve medical assistance cost containment & utilization savings ($29.8 million)	(8)
Increase grant costs avoided by Fraud Early Detection (FRED) investigations ($6 million)	(9)

Notes:

(1) Information is maintained in the Medicaid Management Information System (MMIS). This measure calculates the average enrollment during any given month.

(2) MMIS captures diagnostic codes to determine the number receiving screens compared to total births.

(3) MMIS captures diagnostic codes to determine the number receiving immunizations compared to total two-year old population.

(4) Birth and death certificates (provided by DOH Center for Health Statistics) are linked to Medicaid claims and eligibility history. For each calendar year of births, low-income families with Medicaid coverage include mothers with Medicaid-paid maternity care (up to 185% of the federal poverty level). Deaths of infants during the 365 days following birth are identified. Infant Mortality Rate (IMR) is expressed as deaths per 1000 live births to Medicaid women.

(5) Birth certificates (provided by DOH Center for Health Statistics) and Medicaid claims and eligibility history are linked to PRAMS survey data (provided by DOH Assessment Section). Responses of "later" or "never" to the PRAMS survey question "Thinking back to just before you got pregnant, how did you feel about becoming pregnant?" indicate an unintended pregnancy. TANF women are those who had a Medicaid-paid birth and a match code of 1, 2, or U in the eligibility history file at the time of delivery. This measure computes the proportion of unintended pregnancies for survey respondents known to be on TANF at the time of delivery, with adjustments for sample frame and non-response provided by the Centers for Disease Control and Prevention (CDC).

(6) Birth certificate data on month prenatal care began (provided by DOH Center for Health Statistics) is linked to Medicaid claims and eligibility history. Late (prenatal care began in the third trimester) or no prenatal care is reported for Medicaid women with known initiation of prenatal care. Medicaid women (up to 185% of the FPL) are those with Medicaid-paid maternity care, based on claims in MMIS.

(7) MMIS captures the dates of receipts and payment of provider claims. The percentage of payments made within 30 days of receipt is compared to total claims received.

(8) This information is compiled in one unit, but the information is provided by various other units. Such units include the hospital and medical audit groups, coordination of benefits and quality review services. Most of the actual results reported are obtained from recovered amounts from the Office of Financial Recovery. Some of this is calculated by the amount saved from changing billing practices on a go forward basis.

(9) This information is compiled from the actual recoveries and estimated savings (similar to (8) above) by the payment review program.

The information for AASA's measure is obtained from two major systems within DSHS. These long-term care client records are drawn from SSPS authorization files and the MMIS payments. They represent the number of persons who receive care in homes (not nursing homes or institutions) during an average month.

As previously stated, the measures for MHD are collected from information transmitted from the RSNs, the State Hospital Management Information System, and the MAA MMIS. DDD captures its performance measure results from various individuals within DDD, who are assigned responsibility for accumulating and reporting the information.

Requirements for Management Control Systems

The state plan must provide methods and procedures to safeguard against unnecessary use of care and services, including those provided by long-term care institutions. In addition, the state must have: methods of criteria for identifying suspected fraud cases; methods for investigating these cases; and procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

The state Medicaid agency must have procedures for the ongoing post-payment review, on a sample basis, for the necessity, quality, and timeliness of Medicaid services. Suspected fraud identified by Utilization Control and Program Integrity must be referred to the state Medicaid Fraud Control Units.

States are required to establish payment standards and methods for reimbursing inpatient hospital and long-term care facilities. The payment rates are based on reports provided by the facilities. The state must provide for periodic audits of these facilities' records. The MMIS is the mechanized Medicaid benefit claims processing and information retrieval system that states are required to have. Generally, the MMIS does not process claims from state agencies (e.g., state operated ICF/MR) and certain selected types of claims.

Each state is required to operate a Medicaid Eligibility Quality Control System (MEQC) in accordance with requirements specified by CMS. This CMS-approved system re-determines eligibility for individual sampled cases and provides national and state measures of the accuracy of eligibility and benefit amount determinations. The MEQC system reviews the determinations of beneficiary eligibility made by a state agency, or its designee, and uses statistical sampling methods to select claims for review and project the number and dollar impact of payments to ineligible beneficiaries.

Management Information and Control Systems

Eligibility determination processes use ACES, the same system used by ESA in WorkFirst. ACES is managed by ESA.

MAA uses the federally certified MMIS four front end subsystems to process and adjudicate claims and for claims edit and audit processing support. These subsystems are the Claims Processing Subsystem, the Recipient Subsystem, the Provider Subsystem, and the Reference File Subsystem. Two back end subsystems collect and produce data reports and statistical analysis of processed claims. These back end subsystems are the Management and Reporting Subsystem and the Surveillance and Utilization Review Subsystem. Also used to produce data for claims accuracy analysis are the HWT paid claim analysis system, and the Extended Data Base system.

Data capture on the front end of the MMIS uses two systems: the CCIS (claims capture imaging system) where paper claims are optically scanned and imaged (for archival retrieval) or subjected to Optical Character Recognition (OCR). The Claims Processing Subsystem of the MMIS also provides for data entry of paper claims. Providers also have "Direct Entry" capability by entering their claims directly into the Claims Processing data entry screens. Other forms of electronic billing are also accepted. Pharmacy claims are submitted on line using the Point of Sale system, where they are adjudicated in real time.

Payments (including amount and validity) to medical providers are determined by the MMIS front-end subsystems - Provider, Recipient and Reference File subsystems. At the end of this process, a payment tape is transmitted to the Agency Financial Reporting System (AFRS). The MMIS produces weekly Remittance Advices that are matched with the payment vouchers produced by AFRS, and they are mailed to the providers. Medicaid and state-only payments to community-based providers for services to AASA's and DDD's clients are processed using the SSPS.

MAA uses a variety of quality control functions that reside in several different divisions. Each of these functions contributes to the Utilization & Cost Containment Initiative as well as other ongoing activities. The Coordination of Benefits Section of the Division of Client Support identifies recoveries for other parties. The Quality Review Services Section in the Division of Medical Management provides oversight of fraud and abuse detection in Medicaid programs. The Payment Review Program (PRP) in the Division of Information Systems uses computer analysis techniques to identify potential overpayments. The hospital and medical provider audit function resides in the Budget and Accounting section of the Division of Business and Finance. However, these audit functions have recently been consolidated into PRP in the Division of Information Systems. MAA has reported that the results of these cost control programs (excluding PRP) and others have generated cost savings of $21.7

million for the fiscal year ended June 30, 2002. PRP has reported savings of $3.2 million.

In accordance with federal regulations, the state has instituted a Claims Processing Assessment System (CPAS) to determine claims accuracy and determine errors in the claims payment system. This system is composed of two types of automated sample selections, claims Accuracy and FOCUS. The Claims Accuracy samples 42 claims per quarter while the FOCUS samples 60 claims per month. MMIS processes approximately 2 million claims per month. The Claims accuracy review found one error out of a total sample of 168. The result of this most recent FOCUS review is as follows.

CPAS Review for Year Ended March 31, 2002				
Nature of Error			Dollar Impact	
Coding/Data	19		22	Under Payment
Coverage	16		10	No $ impact
Payment	7		9	Over Payment
Eligibility	1		2	Total $ impact
Total Errors	43		43	
Total Sample	720			
Error rate	5.97%			

The FOCUS error rate in 2002 is substantially more than the error rate of 2.6% experienced in 2001.

Other Medicaid Programs:

As previously discussed, the information for AASA's measure is obtained from two major systems within DSHS. These long-term care client records are drawn from SSPS authorization files and the MMIS payments. The measures for MHD are collated from information transmitted from the RSNs. DDD captures its performance measure results from various individuals within DDD, who are assigned responsibility for accumulating and reporting the information. DDD has received results from two audits or reviews that indicate problems with eligibility and data reliability.

JLARC issued an interim report dated May, 22, 2002 regarding DDD's caseload and staffing issues. JLARC concluded that DDD does not have reliable information about its caseloads and staffing. JLARC further concludes that the lack of effective management controls within the Division contributes to the following impacts:

- Some clients who are ineligible are receiving services;
- Information on the number of cases is inaccurate;
- There is poor linkage between client data and payments for services provided;
- Accurate estimates of caseload growth and staffing requirements cannot be made.

DSHS engaged Sterling Associates, LLP to conduct an independent review of DDD focusing on its management information systems; operational practices

supporting cost controls and data accuracy; and eligibility determinations. Their report, also issued in May 2002, confirms some of these issues but from a different perspective. One of their various conclusions stated that the management information systems and processes are not adequate to maintain timely and accurate information on client eligibility and services authorized and is not adequate to support program staff and managers.

Due to these results, we did not attempt to perform any verification work on the systems used to produce performance measure results.

There is no overall customer satisfaction determination made for the Medicaid programs noted below. The Mental Health Division's overall satisfaction percentage noted below is based on a survey of perception of access to health care for youth and families. Those responding as agree/strongly agree are included in the overall satisfaction percentage.

The Medical Assistance Administration conduct surveys for its Children's Health Insurance Program, Healthy Options – Adults, and Healthy Options – Children Medicaid programs. Respondents were asked various questions (e.g. regarding access to caregivers, getting care that is needed, and communication with doctors). The overall satisfaction percentages noted below for these programs were computed based on these responses. The overall satisfaction percentages include those responding always/usually or a small problem/not a problem.

Medicaid:	
Mental Health Division	68%
Medical Assistance Administration:	
Children's Health Insurance Program (Not Medicaid)	83%
Healthy Options (Adults & Children)	86%

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from the central finance function in DSHS and claims processing costs from MAA for Medicaid. Using the departments' existing definitions of direct services and administrative costs, the following chart indicates the administrative cost efficiency of this program.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Medicaid:						
MAA	2.14%	2,982,105,084	34,956,395	1.17%	28,757,248	0.96%
MHD	1.37%	388,311,853			5,307,926	1.37%
DDD	8.28%	414,552,926			34,319,985	8.28%
AASA	10.81%	869,022,884			93,964,328	10.81%
Total Medicaid	4.24%	4,653,992,747	34,956,395	0.75%	162,349,487	3.49%

This analysis reflects the affect of program design on costs. A case management model as is used in AASA or DDD requires more administration than the RSN model used by MHD, where administration of the program is contracted to the RSNs. MAA uses ESA to perform its intake function for Medicaid and uses an automated claims processing function for providers. As such, its administrative costs are mid-range.

We obtained information from the federal CMS to determine the administrative cost efficiency comparisons for Medicaid as a whole to other states. The following chart compares Washington's Medicaid program to peer states and the national average. This information is for the federal fiscal year 2001 and includes all Medicaid expenditures even if it flowed to other organizations, but only the federal portion. Using the data from CMS we calculated total administration funding as a percentage of total assistance payments. This is shown as administration efficiency in the following chart. We also calculated the percentage of the total program that is funded with federal dollars. This is shown as the federal share.

Fiscal Year 2001	Administration Efficiency	Federal Share
Missouri	4.60%	61.22%
Wisconsin	5.09%	59.22%
Oregon	8.25%	60.10%
Massachusetts	4.77%	50.54%
Indiana	4.77%	61.77%
Average	5.21%	57.62%
Washington	6.08%	51.13%
Percentage worse than peers	(16.67%)	(11.27%)
Rank	5	5
National Average	5.50%	56.94%
Source: CMS-64 Reports		

(Note: this chart shows the administrative costs for Washington State at 6.08%. This percentage includes the administrative costs for the Medicaid programs that are administered throughout the state. This percentage includes those administrative costs incurred by other state agencies, local municipalities and nonprofit organizations. This may not be similar to other states. The administrative rate for DSHS reported above is 2.14%.)

This chart can indicate different aspects of fiscal productivity. However, it is not very meaningful for several reasons. As noted above, included in federal administrative costs are pass-through awards to other governments that MAA does not include in its cost presentations. The federal share is based on a federal calculation using certain demographic information pertaining to each state and is not reflective of program performance.

Another aspect of fiscal productivity can be expressed in terms of costs per Medicaid eligible person. The following information is also from CMS using a different system and only a subset of the cost information presented above. This chart indicates that Washington is performing very well in the cost per participant measure.

Fiscal Year 1999	Cost Per Person	Medicaid Expenditures	Medicaid Eligibles
Missouri	$3,189.31	$2,798,158,114	877,354
Wisconsin	3,988.28	2,245,816,439	563,104
Oregon	2,987.29	1,596,106,651	534,300
Massachusetts	4,748.41	4,952,519,946	1,042,985
Indiana	4,113.10	2,749,567,218	668,491
Weighted Average	3,805.28	2,868,433,674	737,247
Washington	2,876.60	2,574,980,860	895,148
Percentage better than peers	24.41%		
Rank	1		
Source: MMIS Statistical Reports			

APPENDIX G- BASIC HEALTH PLAN

Program Objectives

State Objectives: The intent of the state legislature is to provide, or make more readily available, necessary basic health care services to working persons and others who lack coverage, at a cost to these persons that does not create barriers to the utilization of necessary health care services. The Basic Health Plan (BHP) is established for those residents not eligible for Medicare who share in a portion of the cost or pay the full cost of receiving basic health care services from a managed health care system.

To the extent of funds available, the program is to be delivered throughout Washington to subsidized and non-subsidized enrollees. The plan administrator is directed to identify enrollees who are likely to be eligible for medical assistance and assist these individuals in applying for and receiving medical assistance. DSHS (and HCA) shall implement a seamless system to coordinate eligibility determinations and benefit coverage for enrollees of the basic health plan and medical assistance recipients.

Program Performance Measures

The Washington State HCA manages BHP. HCA establishes measures that are used by its various programs including BHP. HCA measures approximately 25 goals in customer service, human resources, program value and financial attributes in its FY 2002 Balanced Scorecard. Most of these targets address policy and procedural changes and are not outcome or output measures. Many of the 2002 targets were postponed to the 2003-2005 biennium. As such, our review focused on the following key measures of the claims payment processes are:

- 66% of customer applications are complete and accurate.
- 5% increase in the level of eligibility re-certifications.
- 74% of customer service calls are answered within 5 minutes.

There is no federal program BHP. The linkage between state program objectives and related performance measures, discussed above is illustrated in the following table (Table 4.1).

TABLE 4.1 BASIC HEALTH PLAN GOALS AND MEASURES

State Legislative Goals	State Measures
Provide or make more readily available necessary basic health care services to working persons and others who lack coverage, at a cost to these persons that does not create barriers to the utilization of necessary health care services.	Number of complete and accurate applications received from customers. (Target 66%)
DSHS shall coordinate with HCA & community and migrant health clinics to enroll children and immigrant adults in BHP	Increase in telephone response rate (% answered within 5 minutes) (Target 74%)
	Increase recertification by 5% (Target 4,730 annual recertifications)

Similar to other agencies, performance measures are found in various documents with varying degrees of consistent linkage. HCA has a performance agreement between the HCA administrator and the Governor's Office. HCA has a Balanced Scorecard for the entire organization and separate scorecards for individual divisions. HCA also reports results on certain performance measures to OFM on a quarterly basis.

The 2003 Balanced Scorecard for BHP retains the measures presented above with a change of recertification targets to 100 percent annually and adds measures to manage the impact of the recertification process. Other financial measures have been added in 2003 related to reducing the number of enrollees utilizing health care from multiple state sources and maintaining the 2004 medical trend rate (measures the medical cost inflation for the program) of 10.6 percent. The 2003 changes are significant improvements over the 2002 performance measurement system used by HCA.

The operation of BHP is a balance of competing results: increased access and reduced cost. For example, given static funding, increased health care costs will reduce access by statutorily required enrollment management. While this balance can be managed in a variety of ways, the following are the key business variables.

- Plan design and schedule of benefits HCA legislation requires adherence to such mandated services. To the extent that plan design exceeds mandated services, the schedule of benefits could be reduced to obtain cost savings. Benefits below this level would require revisions to mandated services.

- Eligibility requirements for enrollees and total enrollment The current subsidy level of 200 percent of the federal poverty level (FPL) could be increased, with increased program costs, or reduced for cost savings. Any decrease in the subsidy level from 200 percent of the FPL to a lower

percentage of the FPL would require legislation. HCA's legislation requires that enrollment be managed as to not exceed available funding limitations.

- Enrollees' financial participation Premiums/co-payment arrangements, etc. can be increased to reduce program costs, however, HCA's legislation requires that the enrollees' financial participation does not create barriers to access.

- Enrollees' utilization of health care services and overall costs Health care costs are controllable mainly through negotiations with managed care providers. Such providers are expected to manage utilization. Success in reducing contract rates could result in reduced coverage options in parts of the state.

While BHP has established a health care cost trend rate target to 2004, a measure or series of measures that reflect the key business variables, would be useful.

Performance Reporting and Management Control Systems

BHP pays managed care providers based on enrollment in their plans at negotiated contract rates. Financial participation by participants is determined by various factors such as income levels, family size, etc. HCA uses the Membership Billing and Management System (MBMS) for eligibility and benefit management functions. This system is integrated with the OPTICA imaging system for document management. HCA is in the process of converting to a new eligibility enrollment system for BHP. HCA uses the Avaya G3I phone system to monitor the operation of the Call Center. This system tracks and reports a variety of call center operational statistics, including the response rate.

The number of complete and accurate applications is captured in MBMS by use of a specific coding scheme input by Health Insurance Benefits Specialists. Whether an application is complete on its first submission is given a different code than those that require modification or follow-up. MBMS produces reports that show the total number of new applications in one month and the number of those processed in the next month that were complete. We verified the results reported for the quarter ended June 30, 2002 by reference to the Excel worksheet used to calculate the percentage. We also reconciled the data in the Worksheet for May to the MBMS Application Processing for Enrollment report (BHP-218P2 A). The data in the spreadsheet agreed to the system-produced report. HCA reported the results as 41 percent (as compared to the 66 percent target rate). Our recalculation showed the actual results to be 42 percent.

The number of recertifications is tracked in the same manner, using a specific coding scheme input by Health Insurance Benefits Specialists to show which enrollees are being recertified. The selections are based upon risks identified in computer matching with UI wage files, other information or as part of the normal cycle of recertification. MBMS then produces reports that show the total number of applications recertified in one month. We verified the results reported for the year ended June 30, 2002 by reference to the Excel worksheet used to accumulate the monthly amounts. We also agreed the data in the Worksheet from February to June to the MBMS Recertification Status reports (BHP-209P5 B). The data in the spreadsheet agreed to the system-produced report. HCA reported the results as 43,805 (as compared to the 18,920 annual target). The

large difference between the result and the target is due to a change in focus from partial recertification to total recertification during 2002.

The phone response rate is reported by averaging the overall response rate for the three months included in the quarterly results. We verified the results reported for the quarter ended June 30, 2002 by reference to the Excel worksheet used to accumulate the monthly percentages. We also agreed the data in the Worksheet for May to the phone system CMS Monthly System Report. The data in the spreadsheet agreed to the system-produced report. HCA reported the results as 87 percent of all calls answered within five minutes (as compared to the 74 percent target).

The results of our work indicate that the reported results are reliable for all of the measures reviewed.

HCA has recently changed its internal audit function. The Internal Audit work plan is currently in development and is expected to focus its efforts differently than past audits.

Performance in Fiscal Productivity and Efficiency

The following compares the costs of the medical assistance portion of Medicaid and Basic Health Plan.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Medical Assistance (Medicaid Only)	2.14%	2,982,105,084	34,956,395	1.17%	28,757,248	0.96%
Basic Health Plan	4.40%	263,009,587	6,685,345	2.54%	4,895,859	1.86%

Both plans contract with managed care organizations for providing medical services, but Medicaid also has a minor portion of fee-for-service arrangements. The result of this analysis is as expected as CMS requires a significant amount of administrative infrastructure around the Medicaid program that is not required to operate BHP. Also processing costs are less for Medicaid due to the large volume of benefits and a highly automated claims processing system. BHP performs eligibility work on its enrollment base, while Medicaid participants are enrolled by ESA. Given the different nature of these programs the administrative costs for each do not appear to be overly costly.

The relative benefit costs vary significantly between these programs. The following is the estimated annual cost per participant in each program.

Medical Assistance (Medicaid Only)	$4,277
Basic Health Plan	$2,201

This comparison indicates how plan design is the most significant cost driver. In comparing the coverage of these plans BHP does not allow or limits the coverage for many services covered by Medicaid.

Comparison with Other State Plans

We compared eligibility requirements and program design of Washington's BHP to health plans offered by other states. Information was obtained on health plans offered by nine states (California, Connecticut, Hawaii, Illinois, Minnesota, Missouri, New Jersey (2 plans), New York and Tennessee). This information was compared to the Washington's BH. It is difficult to make comparisons due to the limited nature of the information available, however, the following observations and generalizations are made.

Program Design

Two of the plans (Illinois and one of New Jersey's) provided qualified individuals with premium assistance for employer-sponsored plans. Illinois provided a $75/mo rebate. New Jersey paid a portion of the premium depending on the employer plan. California provided a purchasing coop for small employers (2 – 50 employees) to purchase health insurance from a choice of 18 plans for their employees. The state does not pay for these premiums. These plans are very different from the BHP.

Benefits

Benefits offered by the plans are varied. The states' plans offer a range of coverage for dental benefits. Most state plans offer at least limited coverage. Washington's BHP does not cover dental services. There is also a range of coverage for physical, speech and occupational therapy. Most states' plans provide for at least limited coverage of these therapies. BHP limits physical therapy coverage and does not cover occupational or speech therapies. Chemical dependency/outpatient coverage also varies. Most states' plans do not appear to have a lifetime maximum, but may have a limit on number of visits covered per year. BHP has a $10,000 lifetime maximum benefit for substance abuse/outpatient health care. Most other health care benefits covered appear to be similar.

Coverage

About half of the plans reviewed will cover adults and children. The other plans have more specific segments of the population targeted for coverage. Most of the other state plans cover only children, or children and pregnant women, or children, pregnant women, and custodial parents. One plan will cover children, displaced workers, and uninsurable people. BHP is available for adults and children.

Eligibility

In general, legislation provides that enrollees in BHP may be subsidized if their gross family income is not greater than 200 percent of the FPL. Other states' plans require participants to meet some percentage of the FPL. This percentage ranges from 100 percent to 300 percent of the FPL to any income level for certain segments of the population.

All of the plans have a state residency requirement. Some states require that participants be legal residents or citizens or have a minimum residency requirement. Washington requires that the participant be a state resident.

Most states' plans will only cover persons who are not eligible under another plan (e.g. employer, Medicare, Medicaid). Some plans require that a person has been uninsured for a certain time period. BHP requires that participants are not eligible for Medicare or that they are not living in an institution when they enroll.

Funding

Various funding mechanisms are used for the plans such as federal, state, and/or local funds, premiums, tax on providers, and tobacco settlement funds. Funding generally comes from a combination of these sources. BHP is funded by the state and through premiums. All plans, including BHP, require various co-pays and/or deductible amounts per individual and family. Some plans cap the number of enrollees permitted in the plan.

APPENDIX H: UNEMPLOYMENT INSURANCE

Program Objectives

Federal Objectives: In general, the Federal-State Unemployment Insurance Program provides unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under state law), and meet other eligibility requirements of state law. Unemployment insurance payments (benefits) are intended to provide temporary financial assistance to unemployed workers who meet the requirements of state law. In the majority of states, benefit funding is based solely on a tax imposed on employers.

Each state administers a separate unemployment insurance program within guidelines established by federal law. State laws, under which unemployment insurance claims are established, determine eligibility for unemployment insurance, benefit amounts and the length of time benefits are available.

To be eligible, a claimant must meet the state requirements for wages earned or time worked during an established (one-year) period of time referred to as a "base period". (In most states, this is usually the first four out of the last five completed calendar quarters prior to the time that a claim is filed.) In addition, the individual must be determined to be unemployed through no fault of their own (determined under state law), and meet other eligibility requirements of state law.

For continued eligibility, an individual must file weekly or biweekly claims (after the week(s) has ended), and respond to questions concerning continued eligibility. They must report any earnings from work they had during the week(s) and report any job offers or refusal of work during the week. Generally all determinations of whether or not a person is eligible for benefits are made by the appropriate state under its law or applicable federal laws. If disqualified or denied benefits, a claimant has the right to file an appeal. The employer may also appeal a determination.

State Objectives: State legislative objectives are to alleviate economic insecurity due to unemployment for unemployed workers and their families. Unemployment reserves are to be set-aside during periods of employment to be used for the benefit of persons unemployed through no fault of their own.

Program Performance Measures

The Employment Security Department (ESD) measures a variety of performance attributes in both its Unemployment Insurance (UI) programs and its WorkSource programs. Since UI is a federal-state partnership, the US Department of Labor, Employment and Training Administration (DOL/ETA) establishes performance measures and criteria for minimally acceptable performance. These measures

are divided between Tier I (over 10) and Tier II (over 50) measures. The key Tier I measures address first payment timeliness, nonmonetary determinations, appeals, cash management, and status determinations time lapse. In addition to and consistent with these federal measures, ESD has established the following operational performance goals and measures:

- 90 percent of intrastate first payments will be timely.
- 88 percent of claims will be accurate.
- 20 percent increase will be made in timely eligibility decisions.
- 75 percent of appeals will be affirmed and a 20 percent increase will be made in the rate of eligibility decisions with passing quality scores.

ESD also has measures in other areas such as electronic tax filing, customer service, human resources and financial management.

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated in Table 5.1.

Other state measures included in the 2003 performance agreements that are not presented above include effectiveness of re-employment activities:

- 63,300 of UI claimants in re-employment activities enter employment.
- Reduce UI benefits paid to re-employment participants to 65 percent of their maximum entitlement.
- Dislocated workers in re-employment activities achieve an 80 percent wage recovery.
- Those in training achieve a 93 percent wage recovery.

TABLE 5.1 UNEMPLOYMENT INSURANCE GOALS AND MEASURES:

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
	FIRST PAYMENT TIME LAPSE	Using the insurance principle of sharing the risks, the state requires the compulsory setting aside of unemployment reserves to be used for the benefit of persons unemployed through no fault of their own	Same as federal performance measures plus:
Fund unemployment compensation benefits to the unemployed by a tax on employees and employers	Intrastate 14/21 Days (Full Weeks Only)		90% of first-time intrastate payments will be timely
	Intrastate 35 Days (Full Weeks Only)		
	Interstate 14/21 Days (Full Weeks Only)		
	Interstate 35 Days (Full Weeks Only)		
	Intra + Inter 14/21 Days		
	Intra + Inter 35 Days		
	NONMONETARY DETERMINATIONS TIME LAPSE	NOTE: The UI laws are detailed as to eligibility, benefits and administration requirements	Rate of timely eligibility decisions will increase 20%
	Inter & Intra 21 Days Separations		
	Inter & Intra 14 Days Non-separations		
	NONMON. DETERMINATIONS WEIGHTED QUALITY SCORES		Passing quality scores increase by 20%
	Lower Authority Appeals (LAA) TIME LAPSE		75% of appealed eligibility decisions affirmed
	30 Days		
	45 Days		
	90 Days		
	LAA QUALITY SCORES		
	Higher Authority Appeals (HAA) TIME LAPSE		
	45 Days		
	75 Days		
	150 Days		
	STATUS DETERMINATIONS TIME LAPSE		
	New Status Determinations - 90 Days		
	New Status Determinations - 180 Days		
	CASH MANAGEMENT		
	Elapsed Days		
	Annual Ratio		
	Benefit accuracy measurement (BAM) OVERPAYMENT RATE (of $ paid)		88% of Payments will be accurate

The results of these measures as compared to national averages for the year ending March 31, 2002 are as follows:

PERFORMANCE MEASURES	WA	Percentile	Rank	National Average	Better (Worse)
Volume and General Statistics					
NUMBER OF INITIAL CLAIMS (in thousands)	668	83%	9	409.0	
NUMBER OF WEEKS PAID (in thousands)	5,152	83%	9	2,897.5	
RECIPIENCY RATES	52.3	76%	12	44.3	
EXHAUSTION RATES	33.8	54%	23	33.7	
DOL/ETA Tier I Performance Measures					
FIRST PAYMENT TIME LAPSE					
Intrastate 14/21 Days (Full Weeks Only)	87.9	25%	38	89.9	(2.24)
Intrastate 35 Days (Full Weeks Only)	96.1	23%	39	97.0	(0.88)
Interstate 14/21 Days (Full Weeks Only)	85.8	67%	16	79.3	8.14
Interstate 35 Days (Full Weeks Only)	94.6	54%	23	92.5	2.30
Intra + Inter 14/21 Days	88.2	31%	35	89.0	(0.90)
Intra + Inter 35 Days	96.2	29%	36	96.7	(0.52)
NONMONETARY DETERMINATIONS					
TIME LAPSE					
Inter & Intra 21 Days Separations	50.2	15%	42	66.7	(24.75)
Inter & Intra 14 Days Non-separations	77.7	71%	14	65.0	19.55
NONMON. DETERMINATIONS	52.2	10%	45	66.7	(21.75)
WEIGHTED QUALITY SCORES					
Lower Authority Appeals (LAA) TIME LAPSE					
30 Days	59.5	46%	27	58.0	2.57
45 Days	84.2	46%	27	79.1	6.49
90 Days	95.0	27%	37	95.2	(0.21)
LAA QUALITY SCORES	97.5	57%	22	94.9	2.71
Higher Authority Appeals (HAA) TIME LAPSE					
45 Days	98.6	98%	1	73.3	34.43
75 Days	99.7	92%	4	91.1	9.39
150 Days	99.9	73%	13	98.4	1.49
STATUS DETERMINATIONS TIME LAPSE					
New Status Determinations - 90 Days	86.0	76%	12	79.3	8.50
New Status Determinations - 180 Days	93.6	88%	6	89.0	5.17
CASH MANAGEMENT					
Elapsed Days	2.8	19%	40	2.5	(9.93)
Annual Ratio	2.25	24%	38	2.86	21.55
BAM OVERPAYMENT RATE (of $ paid)	9.0	41%	29	8.6	(4.62)

The results of these measures as compared to peer states averages for the year ending March 31, 2002 are as follows:

	WA	Percentile	Rank	Peer Average	% Better (Worse)
Volume and General Statistics					
NUMBER OF INITIAL CLAIMS (in thousands)	668	80%	2	521.9	
NUMBER OF WEEKS PAID (in thousands)	5,152	80%	2	3594.7	
RECIPIENCY RATES	52.3	40%	4	54.7	
EXHAUSTION RATES	33.8	40%	4	32.6	
DOL/ETA Tier I Performance Measures					
FIRST PAYMENT TIME LAPSE					
Intrastate 14/21 Days (Full Weeks Only)	87.9	40%	4	89.6	(1.92)
Intrastate 35 Days (Full Weeks Only)	96.1	40%	4	96.9	(0.81)
Interstate 14/21 Days (Full Weeks Only)	85.8	40%	4	82.3	4.20
Interstate 35 Days (Full Weeks Only)	94.6	40%	4	92.9	1.81
Intra + Inter 14/21 Days	88.2	60%	3	89.1	(1.03)
Intra + Inter 35 Days	96.2	40%	4	96.7	(0.52)
NONMONETARY DETERMINATIONS TIME LAPSE					
Inter & Intra 21 Days Separations	50.2	0%	6	66.3	(24.33)
Inter & Intra 14 Days Non-separations	77.7	80%	2	67.6	15.01
NONMON. DETERMINATIONS WEIGHTED QUALITY SCORES	52.2	0%	6	75.9	(31.25)
LAA TIME LAPSE					
30 Days	59.5	80%	2	39.3	51.55
45 Days	84.2	60%	3	64.6	30.30
90 Days	95.0	60%	3	93.3	1.80
LAA QUALITY SCORES	97.5	60%	3	90.9	7.24
HAA TIME LAPSE					
45 Days	98.6	100%	1	78.3	25.89
75 Days	99.7	100%	1	90.0	10.75
150 Days	99.9	100%	1	97.4	2.57
STATUS DETERMINATIONS TIME LAPSE					
New Status Determinations - 90 Days	86.0	100%	1	71.8	19.74
New Status Determinations - 180 Days	93.6	100%	1	86.0	8.81
CASH MANAGEMENT					
Elapsed Days	2.8	20%	5	3.1	8.74
Annual Ratio	2.25	20%	5	2.9	23.24
BAM OVERPAYMENT RATE (of $ paid)	9.0	20%	5	5.9	(52.99)

The comparison to national and peer states statistics are consistent. Washington, due to its unemployment rate, is in the top 20 percent nationally in terms of volumes of claims and benefits paid. Washington is in the lower quartile for first payment timeliness within the state but is slightly better than average in first time interstate payment timeliness. If ESD achieves its 2003

Performance Agreement goal of 90 percent intrastate first payment timeliness, they will increase their performance in that category from the lower quartile to the national average. EDS performs highly in its timeliness of new status determinations affecting employers.

While ESD performs well in making timely non-separation eligibility decisions, it performs poorly in timely separation eligibility determinations and quality scores. Even if ESD achieves its 2003 Performance Agreement goal of increasing these measures by 20 percent, they will still perform below the national and peer averages.

ESD manages the appeals process well in comparison to national averages and the peer states. ESD performs extremely well for higher authority appeals and average for lower authority appeals. ESD contracts with the state's Office of Administrative Hearings for lower appeals and manages the higher appeals internally.

ESD performs in the lower quartile in cash management measures, but UI staff indicated that performing at that level allows them to fund banking services through compensating balance arrangements.

Conclusions regarding the benefit accuracy measurement (BAM) overpayment rate require care as it could represent many different aspects of payment accuracy. For example, states with complex state laws would likely have a higher BAM overpayment rate than states with simpler laws. States that are more aggressive in payment accuracy investigation would likely have a higher rate then states with a less aggressive program. The rate could also mean that the states' payment processes are more or less accurate. For these reasons, we do not offer any conclusions regarding the state's BAM overpayment rate in relation to the national average or peer comparisons.

Performance Reporting and Management Control Systems

ESD uses two large databases for capturing and reporting performance measures. These systems are TAXIS for employer UI taxes and the General Unemployment Insurance Development Effort (GUIDE) for UI benefits processing. These systems reside in the Department of Information Services as a service center, but ESD owns the applications. Other performance information is obtained from the Office of Administrative Hearings on appeal decisions and from a vendor on customer satisfaction survey results.

UI staff run extract programs against the data in GUIDE to produce the payment and nonmonetary determination time lapse measures. The results of the extract are transmitted to DOL/ETA and are downloaded into worksheets for UI management reporting. Reports may be run from the DOL/ETA system to compare information. We compared the ESD Management Information Reports for these measures to reports run from the DOL/ETA system for selected months in the quarter ended June 30, 2002. While the raw numbers frequently did not agree, the differences on the percentage measure reported were not significant. However, we noted that the percentage reported in the performance agreement for first payment timeliness of 87.1 percent was for June and should have been

reported for the quarter at 86.5 percent. This was an isolated incident and was quickly corrected.

The nonmonetary determinations weighted quality scores are provided by the Federal Benefit Timeliness and Quality Review program composed of representatives from the federal government and other states. We noted the correct amount from the report of this program was reported. We determined that the lower authority appeals quality scores are supported by review sheets completed annually under a similar program.

We agreed the lower authority appeals time lapse as reported in the DOL/ETA system to information provided by the Office of Administrative Hearings. We agreed the higher authority appeals time lapse as reported in the DOL/ETA system to information provided by the Commissioner's Review Office.

New status determinations are reported quarterly on form ETA 581 using employer counts extracted from TAXIS. Cash management measures are calculated from data captured by DOL/ETA. We did not verify the accuracy of either of these measures due to the success of the preceding tests.

ESD maintains a variety of quality assurance functions in its UI program. The initial claim filing process is accomplished via an automated telephone system. The claimant inputs the social security number (SSN) before being connected to a telephone-center operator. This process brings up the GUIDE claim sheet and is used to verify the claimants' identity.

ESD also has an Office of Special Investigations (OSI). OSI uses an automated system (BARTS) to perform matching of data between UI wage files and UI benefits. OSI also matches interstate claims through ICON. Over 30,000 forms are mailed to employers each quarter asking them to verify selected information. When the forms are returned, the information is entered into the system, which calculates any overpayment amount and sends an advice of rights notice to claimants. After further investigation OSI makes a determination as to whether fraud had occurred and refers the account to another department for collection. OSI also performs a match against the new hire database maintained by DSHS. Approximately 1,000 matches per week are identified and OSI sends letters to selected cases (200-600 per week) for additional information. Beginning in 2003, OSI will conduct a match with the Social Security Administration to determine whether valid SSNs are being used.

ESD also operates the UI Quality Control function that performs a random sampling of 120 paid claims and 40 denied claims per quarter. This function reports its results to DOL/ETA in its BAM system, which calculates the BAM overpayment rate used in the performance measures. This function also conducts the BTQ process on nonmonetary determinations and reports the results to DOL/ETA.

ESD has an internal audit that addresses internal controls, processing system integrity, financial compliance and special audit requests. While their audit focus is not directly related to the performance measures, they provide control review functions for ESD as a whole. This contributes to the overall effectiveness of the systems used to produce performance measure results.

ESD uses a customer satisfaction survey process for UI beneficiaries for their overall satisfaction with the process involved in filing for UI benefits, ESD

conducted a survey to determine overall satisfaction of applicants filing for unemployment insurance benefits. The overall satisfaction percentages of 86% include very satisfied and somewhat satisfied responses. ESD will be surveying employers on their satisfaction with ESD services, but no results have been obtained to use in this project.

Performance in Fiscal Productivity and Efficiency

We obtained fiscal information from the DOL/ETA website for the quarter ended June 30, 2002 regarding taxes and benefit comparisons among the states. This information shows that Washington ranks 3rd highest for tax rates on total wages. This information also shows that Washington ranks 3rd highest in the average weekly benefit amount. Using this same source we calculated the percentage of federal allocations to benefits, noting Washington had the second lowest federal allocation as a percentage of benefits paid. This indicates that while Washington is at the top of states in terms of tax burden and benefits, it operates very efficiently in terms of federal funds allocated to the program.

This conclusion is confirmed by a comparison of the UI program to the other workers' assistance programs included in this project as follows:

PROGRAM	Processing & Administration Costs %	Benefit Costs	Benefit Processing Costs	%	Administration Costs	%
Unemployment Compensation	2.67%	$1,945,253,325	$33,091,955	1.70%	$ 18,756,292	0.96%
Department of Labor and Industries	9.19%	1,387,636,117	45,449,874	3.28%	82,107,804	5.92%
Division of Vocational Rehabilitation	12.01%	39,092,943			4,694,907	12.01%

APPENDIX I: WORKERS' COMPENSATION

Program Objectives

State Objectives: It is the state legislature's objective that workers who are injured at their work and their families and dependents shall receive assistance regardless of questions of fault. The state legislature has established various rules regarding the payment of medical and death benefits, how premium rates are established, the use of funds and other administrative matters.

One of the primary purposes of vocational rehabilitation services is to enable an injured worker to become employable at gainful employment consistent with his or her physical and mental status. If vocational rehabilitation is expected to be successful for an injured worker, a specific order of job and employer priorities is established in legislation ranging from returning to the previous job with the same employer to a new job with a new employer.

The Department of Labor and Industries (L&I) is required to establish criteria to monitor the quality and effectiveness of rehabilitation services provided by individuals and organizations. The department shall also engage in, where feasible and cost-effective, a cooperative program with the state Employment Security Department to provide job placement services.

Program Performance Measures

L&I is somewhat unique, as it is one of only five state-run workers' compensation programs in the nation. Also there is no federal oversight agency that tracks performance measures on a national basis. As such, L&I has developed its performance measures without the benefit of federal guidance or the availability of comparable benchmarks.

L&I measures performance in several categories: safe workplace, Workers' Compensation (WC), regulatory improvements, customer service and worker economic protection. The Workers' Compensation measures for the 2002 Scorecard, with established targets include:

- Time-loss duration (sustain at 7.5 percent below the baseline at June 30, 1997).
- Increase hours reported by residential wood frame construction industry by 10 percent (Target is 6.3 million hours)

The Workers' Compensation measures for the 2003 Scorecard, with established targets include (baselines provided in parentheses):

- Reduce by 20 percent the average processing time for carpal tunnel claims (535 days).
- Reduce by 20 percent the number of independent medical exams (IME) with more than one medical specialist. (12,500 IME),
- Reduce the number of active time loss claims in age range 6 to 24 months by 15 percent.
- Increase reporting of wood framing work by employers (4900 employers).
- Collect $2.5 million from previously unregistered employers ($1,410,799).

As is evident from comparing the selected measures between 2002 and 2003 L&I is becoming more focused in its selected measures. L&I also uses a variety of operational measures directly related to processing claims. These measures include percent of first time, time-loss payments made within 14 days; timeliness of ongoing payments processed; caseload volume, backlog and closures; and determinations and protests. The L&I Vocational Rehabilitation Program measures vocational rehabilitation intervention, plans and outcomes.

The linkage between state program objectives and related 2003 performance measures is illustrated in Table 6.1.

TABLE 6.1 WORKERS' COMPENSATION GOALS AND MEASURES:

State Legislative Goals	Scorecard Measures
Provide a single remedy and sure, prompt and reasonable income and medical benefits to work-accident victims or income benefits to their dependents, regardless of fault	Reduce by 20% the average processing time for carpal tunnel claims.
	Reduce by 20% the number of IMEs with more than one medical specialist.
	Reduce the number of active time loss claims in age range 6 to 24 months by 15%.
	Increase reporting of wood framing work by employers.
	Collect $2.5 million from previously unregistered employers
NOTE: The WC laws are detailed as to eligibility, benefits and administration requirements	**Operational Measures**
	% 1st payment of time-loss in 14 days
	% timely ongoing time-loss payment
	% protests completed within 90 and 180 days
	% claims reopened within 90 or 150 days
	third party recoveries and cost-avoidance
	appeals volume
State Legislative Goals	**Vocational Rehabilitation Operational Measures**
Enable the injured worker to become employable at gainful employment	The measures involve volume of input and output:
	New Vocational Rehabilitation intervention/AWA requests
	Open Vocational Rehabilitation intervention/AWA requests
RCW 51.32.095 requires an order of priority in returning to work. Also requires criteria to monitor quality and effectiveness of rehabilitation service providers.	Vocational Rehabilitation intervention/AWA outcomes
	New Vocational Rehabilitation plan activity
	Open Vocational Rehabilitation plans
	Vocational Rehabilitation plan outcomes

The state's workers' compensation program underwent a very extensive performance audit in 1998 conducted under contract with JLARC. This audit made many recommendations for improvement, but found that the system provided higher than average benefits with lower premiums than average. While this audit is now somewhat dated, it appears to have had an impact on the selection of performance measures. For example, a concern over the timeliness of first time-loss payment is addressed by an operational measure above. Similarly, concerns about the time it takes for an injured worker to return to work is partially addressed by measuring the reduction of time-loss claims in the 6-24 month age range. Other measures that appear to correspond to issues raised by this audit are the timeliness of protest and reopened claims and the outcomes from vocational rehabilitation plans.

Of interest is the comparability of operational measures for workers' compensation to those used in the Unemployment Insurance (UI) program. Also the workload measures for vocational rehabilitation services is somewhat similar to workload measures used by the DSHS Division of Vocational Rehabilitation (DVR). One major difference is that L&I does not establish targets for these operation measures as the two other agencies do.

There is very little to compare L&I to other WC programs due to its uniqueness as a monopolistic state-run plan. However premium rate comparisons are available. Using a comparison conducted by Oregon (the ranking is 1-best to 51-worst in premium rates), Washington (ranked at 13 in the lowest cost premiums for 2000) compares well to other monopolistic state funds in its costs as follows:

PERFORMANCE MEASURES	2000 Ranking	1998 Ranking
Premium Ranking	13	11
Ohio	42	35
West Virginia	38	12
North Dakota	16	10
Wyoming	12	9
Average Monopolistic State Funds	24.2	15.4

Washington trailed only Wyoming in 2000 and trailed Wyoming and North Dakota in 1998. Using this same information source, we compared premium rates to the peer states used for this project as follows:

	2000 Ranking
Missouri	25
Wisconsin	19
Oregon	17
Massachusetts	15
Indiana	2
Average of peer states	15.6
Washington	13

Since there are no performance measure results from other states that are comparable, we have used other Washington state agency information for comparison purposes. However, even this comparison is of limited value because of the significant differences in the nature of the programs between WC and UI and between WC and DVR. However, WC appears to be paying its claims in approximately the same level of timeliness as UI.

Operational Measures	WC	UI
% 1st payment of time-loss in 14 days	94.81%	87.9%
% timely ongoing time-loss payment	93.25%	97.1%
% protests completed within 90 days	69.66%	95.0%
% protests completed within 180 days	85.21%	N/A
% claims reopened within 90 or 150 days	99.55%	N/A
third party recoveries and cost-avoidance	N/A	N/A
appeals volume	5,771	N/A
		DVR
New Vocational Rehab intervention/AWA requests	1602	927
Open Vocational Rehab intervention/AWA requests	5590	15,631
Vocational Rehab intervention/AWA outcomes	398	N/A
New Vocational Rehab plan activity	433	575
Open Vocational Rehab plans	993	N/A
Vocational Rehab plan outcomes	73	127

N/A-Information is not available

The 2002 Scorecard Measures results for L&I's WC program are as follows:

2002 Scorecard Measures	Results
Time-loss Duration (sustain at 7.5% below the baseline at 6/30/97).	16% Increase
Increase hours reported by residential wood frame construction industry by 10% (Target is 6.3 million hours)	4,920,279 Hours

The results show that Washington is not meeting its two 2002 Scorecard measures.

Performance Reporting and Management Control Systems

L&I uses the Labor and Industries Insurance Information System (LINIIS) which is an integrated database. This system handles claims management, employer account management and benefit payment processing (Medical Information Payment System (MIPS)). These systems capture the information used to report results of the measures discussed above. L&I uses extracts from LINIIS to track its operational performance measures and report them to management on a monthly basis. Queries to LINIIS are used to report the results of the performance measures. We reviewed the process of obtaining the measures results noting it appears reliable.

L&I maintains both a fraud detection unit and a quality assurance function. L&I focuses its fraud detection efforts to minimize or eliminate fraud in three major areas:

- Among employers, who don't register or register and then fail to accurately report hours worked.
- Among health care providers, who bill the department for work that isn't done.
- Among workers, who fraudulently collect workers' compensation benefits they aren't entitled to.

Labor and Industries began focusing heavily on fraud two years ago. In Fiscal Year 2001, L&I spent $4 million to detect fraud. That expenditure translated into $24.5 million administrative fraud orders, assessments and cost avoidance. L&I also is working with prosecutors in an attempt to file more criminal cases against workers, employers and providers who defraud the workers' compensation system. During the past year L&I focused on unregistered contractors who weren't paying workers' compensation premiums. In that year, L&I brought over 1,350 unregistered employers into compliance. The goal contained in the 2003 scorecard is to collect $2.5 million from them in back premiums. This unit also discovered several large frauds this past year.

The purpose of the Quality Assurance (QA) unit is to provide Insurance Services with an auditing resource, external to Claims Administration, to review the agency's handling and management of State Fund claims. The QA process is designed to evaluate and report on Claims Administration's compliance with industrial insurance statutes, administrative rules, agency policy and training instruction.

The QA staff includes seven experienced adjudicators. The processes used attempt to provide value to all levels of the claims system, from the individual claim manager to program management. QA staff conduct claim reviews based on core-subject matters (e.g. closing actions, medical management, protests).

QA has been regularly suspended from its designed operations due to management decisions to use the expertise of the QA staff for special projects or other agency priorities. Since reinstating the formal QA process in 2001, two QA reviews were completed – Claim Resolutions and Medical Management. We have reviewed these reports noting that the work was very extensive.

L&I maintains an Internal Audit function that devotes a significant amount of its annual work plan to claim payment issues. While this function focuses on more traditional internal control work, it is beginning to consider how its work would contribute to the performance management system.

L & I surveyed employers and employees to determine their overall satisfaction with their workers' compensation claims experience. The overall satisfaction percentage of 69 percent includes very satisfied and somewhat satisfied responses.

Performance in Fiscal Productivity and Efficiency

The main gauge of fiscal productivity is the premium rates charged to operate the program. The program's positive premium comparisons have already been discussed in the previous section. Since comparative operating cost data from other states is not readily available, the following compares the processing and administration costs among the employment assistance programs included in this project.

PROGRAM	Processing & Administration Costs %	Benefit Costs	Claims Processing Costs	%	Administration Costs	%
Unemployment Compensation	2.67%	$1,945,253,325	$33,091,955	1.70%	$ 18,756,292	0.96%
Department of Labor and Industries	9.19%	1,387,636,117	45,449,874	3.28%	82,107,804	5.92%
Division of Vocational Rehabilitation	12.01%	39,092,943			4,694,907	12.01%

While L&I separately tracks its claims payment processing costs, its administration costs are not broken out between Workers' Compensation and its other programs. As a result, the administration costs reflected above include administration for the department as a whole and not the amount that would be specifically allocated to the Workers' Compensation program. This tends to overstate the administration cost percentage as compared to other programs. Since L&I has aspects of both a claims processing function and a case management function, its placement between UI and DVR makes sense. One item worth noting is the claims processing costs. UI has moved to a more automated telephone center operation that has helped it reduce its processing costs. This type of program may be useful to L&I in controlling its processing costs.

APPENDIX J: VOCATIONAL REHABILITATION

Program Objectives

Federal Objectives: The purpose of Title I of the Rehabilitation Act of 1973, as amended, which authorizes the State Vocational Rehabilitation (VR) Services Program, is to assist states in operating statewide comprehensive, coordinated, effective, efficient, and accountable VR programs, each of which is:

- An integral part of a statewide workforce investment system; and
- Designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment.

Federal funds are distributed to the states on a formula basis with the states required to provide a 21.3 percent match. The program is administered by an agency designated by the state as having overall administrative responsibility for the VR program.

The states must submit to the Rehabilitation Services Administration (RSA) a State Plan that provides both assurances and descriptions that are required by Title I of the Act and the implementing regulations. The State Plan is one of the key bases of RSA's monitoring of the state's administration of the VR program.

Services are provided either directly by state VR Agency staff or purchased from community-based vendors. Services, except those of an assessment nature, are provided under the Individualized Plan for Employment (IPE) to achieve an employment outcome that is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities and informed choice.

The Workforce Investment Act (WIA) of 1998, as amended, requires the VR program to collaborate with other workforce development, educational, and human resource programs in a one-stop service delivery system. The WIA's objective is to create a seamless delivery system by linking the agencies operating these programs in order to provide universal access to the programs operated by each agency.

State Objectives: State legislative objectives are: 1) to rehabilitate individuals with disabilities so that they can prepare and engage in a gainful occupation; 2) to provide services for the disabled so that they can enter more fully into life in the community; 3) to assist the disabled to become self-sufficient and self-supporting; and 4) to encourage and develop community rehabilitation programs, job support services, and other resources needed by individuals with disabilities.

Program Performance Measures

The Division of Vocational Rehabilitation (DVR) measures a variety of performance indicators that the federal government uses to produce comparative statistics for the nation. DVR focuses its attention on improving career development with wage progression and measures outcomes in terms of successfully closed cases.

DVR uses a strategic planning process that incorporates goals and objectives of its primary programs within the context of the DSHS mission and strategic themes. This process is useful in defining performance goals and measures to address federal and state program objectives within external and internal constraints. The strategic plan addresses the State Vocational Rehabilitation Services Program and the WIA in defining its strategic objectives. In addition to the federal performance measures, DVR uses similar but expanded measures that it reports in its Executive Management Information System (EMIS). EMIS reports financial and case volume information in addition to participant outcome measures. We obtained the EMIS reports used by DVR to manage its program and have summarized the results for some of the measures as follows:

As of June 30, 2002	Actual	Target	Percent Above/Below Target
Case service funds	$ 2,554,468	$ 2,333,333	
Number of New Applicants – Non-cumulative (June)	927	750	23.6%
Total Customers Served	16,539	14,600	13.3%
Average Number of Days To Eligibility Determination	48	60	20%
Average Number of Days from Eligibility to Plan	175	None	
Total Open Cases	15,631	13,850	12.9%
% of Total Open, Eligible Cases, by Disability:			
Most Significantly Disabled	44.8	None	
Significantly Disabled	49.7	None	
Disabled	5.5	None	
Cumulative IPE's written	5,013	5,400	(7.2%)
Percent Written For:			
Most Significantly Disabled	51.7	None	
Significantly Disabled	48.3	None	
Disabled	0.0	None	
Non-cumulative Total Cases Closed After Eligibility			
Closed	712	None	
Closed Before Plan	451	None	
Closed not Successful	134	None	
Closed Rehabilitated	127	275	(53.8%)
Cumulative Cases Closed Rehabilitated	1,230	2,775	(55.7%)
Percent of Total Closed:			
Most Significantly Disabled:	33.7	None	
Significantly Disabled	62.6	None	
Disabled	3.7	None	
Closed Competitively	1175	None	

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As of June 30, 2002	Actual	Target	Percent Above/Below Target
Customer Rehabilitation Rate	48.59%	60%	(19%)
Wages Before Receiving Services	$ 181	None	
Wages After Receiving Services	$ 1,331	None	
Average Hourly Earnings Greater or Equal to Minimum Wage	$ 9.92	None	

The linkage between federal and state program objectives and related performance measures, discussed below is illustrated in the following table (Table 7.1). The state's performance measures are the same as the federal measures plus other output measures from EMIS above.

TABLE 7.1 DIVISION OF VOCATIONAL REHABILITATION GOALS AND MEASURES:

Federal Legislative Goals	Federal Performance Measures	State Legislative Goals	State Measures
The State Vocational Rehabilitation (VR) Services Program, is to assist states in operating statewide comprehensive, coordinated, effective, efficient, and accountable VR programs. DVR is an integral part of a statewide workforce investment system; and is designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment. The WIA of 1998, as amended, requires the VR program to collaborate with other workforce development, educational, and human resource programs in a one-stop service delivery system. The WIA's objective is to create a seamless delivery system by linking the agencies operating these programs in order to provide universal access to the programs operated by each agency.	1.1: Change in Total Employment Outcomes After an IPE (>= 0)	1) to rehabilitate individuals with disabilities so that they can prepare and engage in a gainful occupation	% of participants successfully rehabilitated
	1.2: Percent of Employment Outcomes After Services Under an IPE (>= 55.8%)	2) to provide services for the disabled so that they can enter more fully into life in the community	The state uses the same performance indicators included under the federal measures column
	1.3: Percent of Employment Outcomes for all Individuals that were Competitive Employment (>= 72.6%)	3) to assist the disabled to become self-sufficient and self-supporting	In addition, the following **volume and output measures from EMIS** are used:
	1.4: Percent of Competitive Employment Outcomes that were for Individuals with Significant Disabilities (>= 62.4%)	4) to encourage and develop community rehabilitation programs, job support services, and other resources needed by individuals with disabilities	Number of new applications
	1.5: Ratio of Average VR Wage to Average State Wage (>= .52)		Total open cases
	1.6: Difference Between Self-Support at Application and Closure (>= 53.0)		Number of IPEs and post employment plans written
	Number of primary indicators (1.3 to 1.5) in standard 1 that were failed. (Can fail no more than 1)		Total cases closed after eligibility
			Total participants served
	Number of indicators in standard 1 that were failed. (Can fail no more than 2)		Participants Served in Extended Support Services
			Average number of days to eligibility determination for decisions made during the month
	2.1: Minority service rate ratio (> = .80)		Average number of days from eligibility to plan for IPEs written during the month

The results of these measures compared to national averages for the year ended September 30, 2000 are as follows:

PERFORMANCE MEASURES	WA	Percentile	Rank	National Average	% Better (Worse)
1.2: Percent of Employment Outcomes After Services Under an IPE (>= 55.8%)	68.87%	81.80%	10	63.58%	8.32
1.3: Percent of Employment Outcomes for all Individuals that were Competitive Employment (>= 72.6%)	79.72%	20.00%	45	83.18%	(4.16)
1.4: Percent of Competitive Employment Outcomes that were for Individuals with Significant Disabilities (>= 62.4%)	93.18%	70.90%	16	83.81%	11.18
1.5: Ratio of Average VR Wage to Average State Wage (>= .52)	53.20%	34.60%	37	57.48%	(7.44)
1.6: Difference Between Self-Support at Application and Closure (>= 53.0)	85.57%	98.10%	1	63.01%	35.80
2.1: Minority service rate ratio (> = .80)	98.50%	81.40%	10	94.27%	4.48

DSHS's DVR is performing very well in most of the federal performance measures. Regarding measure 1.3, DVR management disagrees with the manner in which the federal government calculated this measure. They believe that they are performing well above the national average of 83.18%. Measure 1.5 is a challenge for Washington due to the average wage enjoyed in this state as compared to other states.

The results of these measures compared to peer states averages for the year ended September 30, 2000 are as follows:

PERFORMANCE MEASURES	WA	Percentile	Rank	Average	% Better (Worse)
1.2: Percent of Employment Outcomes After Services Under an IPE (>= 55.8%)	68.87%	60%	3	65.30%	5.46
1.3: Percent of Employment Outcomes for all Individuals that were Competitive Employment (>= 72.6%)	79.72%	20%	5	85.40%	(6.66)
1.4: Percent of Competitive Employment Outcomes that were for Individuals with Significant Disabilities (>= 62.4%)	93.18%	40%	4	88.32%	5.50
1.5: Ratio of Average VR Wage to Average State Wage (>= .52)	53.2%	20%	5	56.70%	(6.17)
1.6: Difference Between Self-Support at Application and Closure (>= 53.0)	85.57%	100%	1	54.30%	57.59
2.1: Minority service rate ratio (> = .80)	98.5%	100%	1	81.12%	21.43

The results of this comparison confirm the results of the national average comparison. Washington is performing well in achieving positive outcomes for program participants.

While many of the EMIS measures are consistent with the federal program measures, many can be considered "feeder" measures in that accomplishing targets in determination timeliness and plans written, for example, helps to accomplish the outcome measures. The summary of measures discussed previously indicates a very good management practice. Establishing operational management measures with aggressive targets assists the Division in managing results to targets on a day-to-day basis. Aggressive target-setting allows for the accomplishing of overall goals even though individual internal targets may not be met. This is best illustrated by the measure of cases closed that were rehabilitated. While DVR missed its internal target by 4% in 2000, DVR performed in the top 10 nationally in 2000 in that measure.

DVR's strategic plan for 2004 to 2009 discusses many significant challenges to the program, two of which are the order of priority and staffing. The strategic plan discusses these issues in the following way.

By law, when DVR cannot serve everyone who applies and is eligible for services because of a lack of staff or funding resources, it must implement a process to ensure that those with the most significant disabilities are selected for services first. This process, which requires that those with the most significant disabilities are served in the order in which they apply, is called "Order of Selection." This process substantially slows the provision of services to customers, resulting in a reduction in the number of customers served at various stages of the rehabilitation process.

DVR recently had to raise Vocational Rehabilitation Counselor minimum qualifications in order to comply with federal personnel requirements. The division received sufficient state matching funds for the next biennium to increase federal funding. This has put the division in the position of having sufficient funds to serve potential applicants and existing customers, but insufficient staff resources to do so. Consequently, DVR anticipates that it will under spend its federal grant and could lose up to $30 million over the next two years. This means that as many as 7,500 individuals will not receive services, not because dollars are not available, but because of insufficient staff resources. In addition, DVR will possibly be subject to federal sanctions for failing to meet mandatory service delivery standards and would lose additional federal dollars as a result. These dollars would be redistributed to states that do meet the standard.

While DVR measures services in the order of priority, it does not include a management target to address the staffing issues. It would seem prudent to establish a measure to track progress toward a goal that would minimize lost federal funds and avoid federal sanctions.

Performance Reporting and Management Control Systems

DVR uses the STARS database system to track customer status. This system accumulates work effort in terms of number of applications processed, eligibility determinations made, number of employment plans prepared, number of

closures and the rehabilitation rate. This system is also used to report the federal standards and indicators statistics.

Working with DVR information system staff, we were able to replicate queries of the STARS database to verify reported performance results. The information in EMIS that was verified in this manner included the number of new applications, IPEs written, percentage of IPEs written for disability category, cases closed that were rehabilitated, customers served, days to eligibility determination, open cases, closed cases and percent rehabilitated by disability category and average wage statistics. Based upon this work the DVR systems used to report performance results are reliable.

DVR staffs an Internal Audit function that performs random audits as well as ongoing monitoring. DVR field units are audited, as well as several agency-wide processes. While the Internal Audit function focuses on fiscal accountability, it does review certain aspects of program management. For example, the Internal Auditor reviewed the revised CRP purchasing procedures that took affect on July 1, 2001, and concluded that there has been an increase in accountability. These CRP purchases represented 31 percent of all client payments as of June 12, 2002. In the auditor's opinion, present CRP services did not provide the vendor with the incentive to place people with disabilities into employment that meets their needs. The auditor found that there are more emphases on assessment and training than placement and retention. The major portion of CRP service dollars are paid for assessment and training. The system also creates an environment that can contribute to a less than professional behavior between the vendor and counselor. This finding resulted in a plan to provide incentives for more efficient and effective job placements and long term retention for DVR clients.

Performance in Fiscal Productivity and Efficiency

We obtained certain fiscal information regarding the state programs for the 1999 federal fiscal year. While this information is somewhat out of date, it provides a consistent comparison of certain fiscal productivity measures. The result of our analysis is as follows:

Federal Fiscal Year 1999	Percentage of Administration to Total Costs	Percentage of Administration to Direct Costs	Rehabilitation Per Employee	Cost per Outcome	Cost per Significant Disability Outcome
Washington	10.62%	12.66%	11.1	$ 10,635.11	$ 11,636.35
National Rank (out of 55)	31	31	15	12	13
National Average	10.54%	12.43%	9.3	$ 11,990.41	$ 14,209.30
% Better (Worse)	(0.75%)	(1.84%)	19.37%	11.30%	18.11%
Peer Rank	5	5	4	4	3
Peer Average	8.39%	9.58%	12.2	$ 11,044.76	$ 12,547.48
% Better (Worse)	(26.65%)	(32.07%)	9.02%	3.71%	7.26%

This analysis allows for the following conclusions:

- While DVR spends more on administration than most states, it is more productive than most states in obtaining outcomes from the dollars spent on clients both nationally and in comparison to peer states. Washington performs better in these measures than both the national and peer states averages. DVR ranks in the middle of peer states for these measures.

- DVR is in the top third in staff productivity, nationally, but is in the bottom half of the peer states. Even with a fourth place ranking among the peers, Washington's rehabilitation per employee is better than the peer average.

In comparison to the vocational rehabilitation costs in L & I, DVR case management is much more expensive (L&I's cost per completed plan is $3,427).

The issues regarding staffing, previously discussed, are significant to the fiscal productivity profile. Using 2002 EMIS and other data, we developed an approximation of comparative statistics to the 1999 federal data. This data is not comparable to the federal information due to differences in definitions, and should be treated as such. However, it shows that the staffing issues could have a significant impact on the fiscal productivity of the program.

Percentage of Administration to Total Costs	Percentage of Administration to Direct Costs	Rehabilitation Per Employee	Cost per Outcome
10.60%	11.85%	4.1	$ 31,827.97

In 1999 the federal information showed that 3,719 persons were rehabilitated using 335 employees. The 2002 EMIS data showed that 1,230 persons were rehabilitated using 298 employees. Total program costs were reported as $47.1 million in 1999 and $43.8 million in 2002. While financial resources were less by 7 percent and staffing resources were less by 11 percent, rehabilitations were down by 67 percent. DVR provided the following discussion about causes for the large decrease in rehabilitation experienced in 2002. We have provided this discussion in this appendix because it helps to explain why such a dramatic change in performance occurred.

Regarding the decrease in rehabilitations completed in 2002, there are some factors that significantly impacted the number of successful rehabilitations for that fiscal year.

Order of Selection - By law, when DVR cannot serve everyone who applies and is eligible for services because of a lack of staff or funding resources, it must implement a process to ensure that those with the most significant disabilities are selected for services first. This process, which requires that those with the most significant disabilities be served in the order in which they apply, is called "Order of Selection."

During FY 2000 - 2001, DVR determined that it could no longer serve everyone who is eligible and applies for services. On November 6, 2000, the division invoked the Order of Selection process. DVR expects to remain in order of selection for the foreseeable future.

This process substantially slowed the provision of services to customers, resulting in a reduction in the number of customers served at various stages of the rehabilitation process.

The division is currently serving individuals in the Priority 1 category, the most significantly disabled as they apply and are eligible for services.

Staffing - Recruitment and retention of qualified staff has been a growing concern for the division, which is reflected in a turnover rate for Vocational Rehabilitation Counselors of close to 30%. The number of vacant positions is higher than usual because the division recently had to raise Vocational Rehabilitation Counselor minimum qualifications in order to comply with federal personnel requirement. This personnel action caused hiring to be frozen until the Washington Department of Personnel could approve the change and establish new registers.

The division was just about to begin an accelerated hiring effort to fill current vacancies when the Governor's hiring freeze was announced. The division's inability to fill vacancies further exacerbated the reduction of customers served at various stages of the rehabilitation process.

In addition there is a nationwide shortage of qualified VR Counselors and many staff in leadership positions will be eligible to retire over the next few years. Keeping pace with the growing need for qualified candidates to compete for these positions as they become available has become a priority.

If the division cannot hire sufficient staff to continue serving individuals with disabilities at the current rate, it will be forced to once again close its priority waiting lists.

Informed Choice - In addition to pressure from individuals with disabilities, the Rehabilitation Act Amendments mandate state agencies to integrate the concept of "informed choice" into their service delivery. The mandate calls for a shift in the way services are delivered to customers. The informed choice model, at its most basic level, provides our customers with the information and guidance necessary to make choices about the career path they wish to pursue. While the focus in the old model was on finding a job, the current model focuses on finding and sustaining a job that provides both fulfillment and an adequate income.

For DVR, this means identifying ways to build informed choice into all aspects of service delivery. The division must review and revise processes, structures and performance measures to ensure they are aligned with the concepts of informed choice. Further, in this customer-driven environment, customers' satisfaction with the experience and services received becomes even more important in evaluating and measuring how successful DVR is at achieving its mission.

APPENDIX K: STATE WORKLOADS

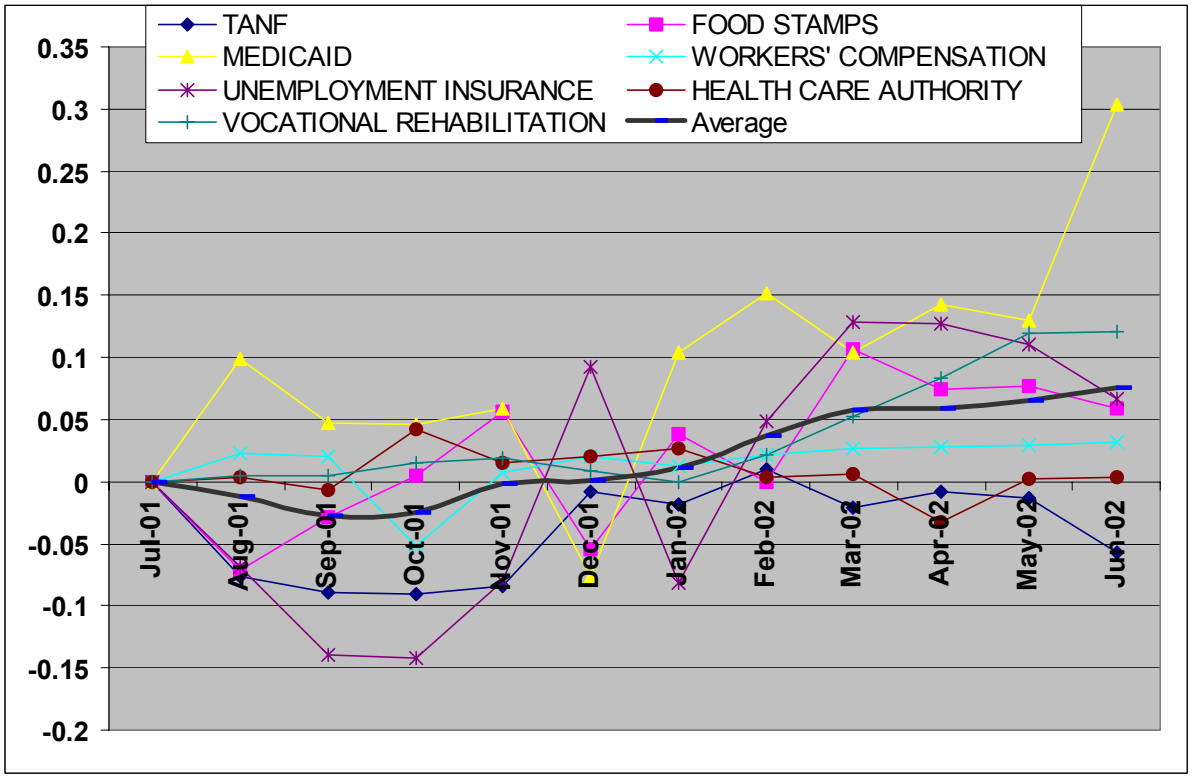
To address the requirement to answer the following question we performed an analysis of the feasibility of combining certain operations:

If the state could start over to plan the administration of claims/benefits, would the business system(s) be the same as now? Are there redundancies that could be eliminated? Does consolidation of any systems or programs make sense?

In order to address this question we obtained workload variability information from the agencies. We summarized this information into the following series of charts.

Staffing Charts:

This confusing chart shows the workload variability of all of the programs included in this review.



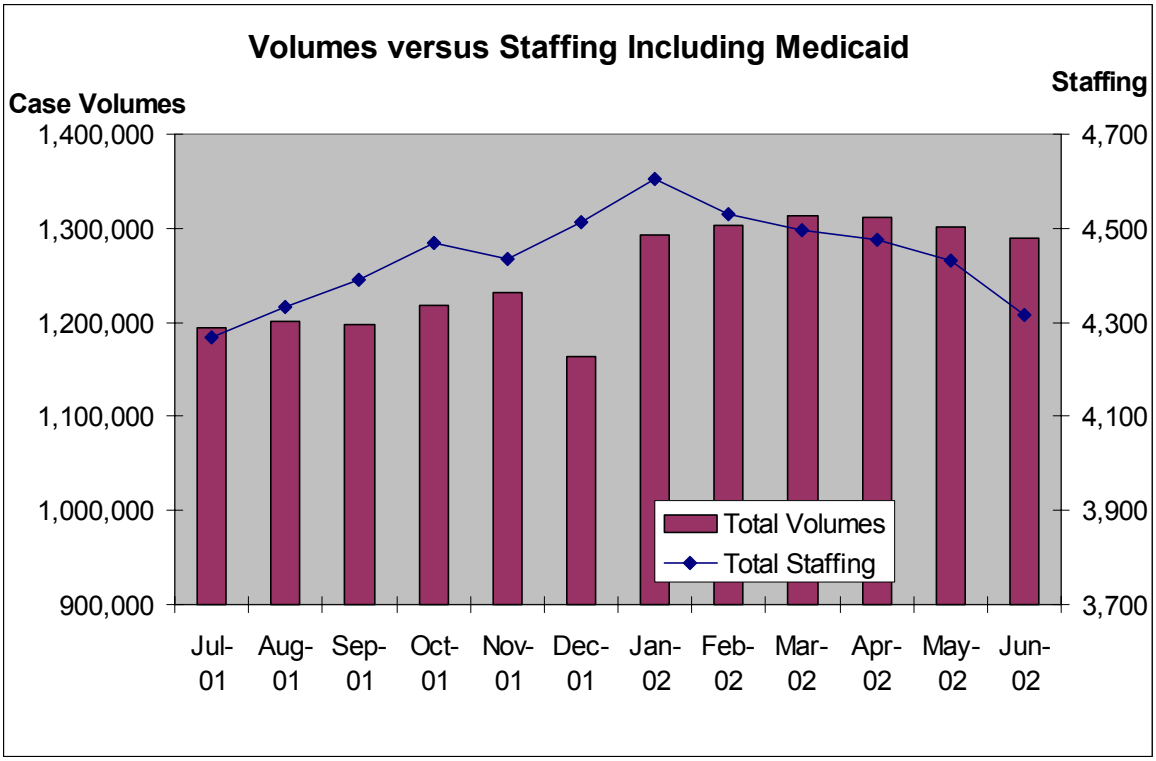
All points on this chart start with July 2001 as the baseline, whether that is the appropriate level of staffing versus workload or not. This chart shows the percentage change from July 2001 of the workload in relation to staffing

employed to address the workload. The bold black line shows the average for the state. It shows that from the state's overall perspective, workload was less for the first half of the year than for the latter half of the year. Workload averaged 5 percent to 7.5 percent more during 2002 than at July 2001, while it was 1 percent to 2.5 percent less during the first half.

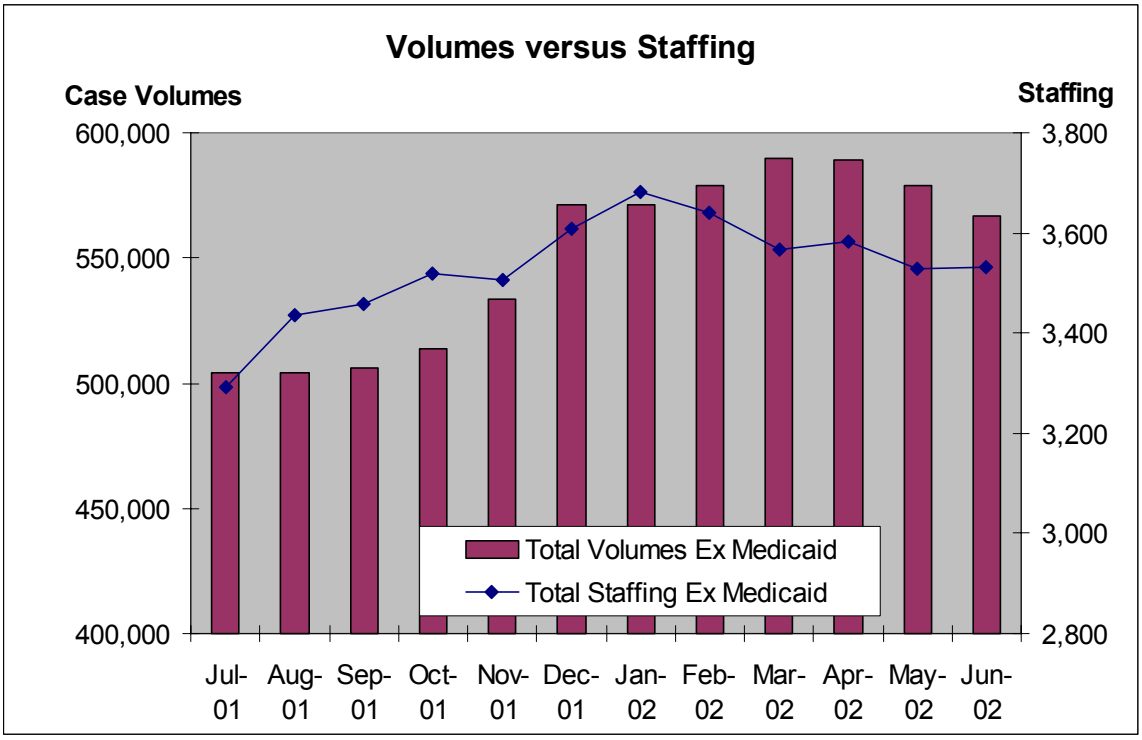
The importance of this chart is to show that there is some possibility to match times of low workload in some agencies with high workload period in other agencies. However, the way that we determined monthly staffing levels for various programs significantly affects this analysis. Staffing devoted to TANF, Food Stamps and Medicaid are determined based on a Random Moment Time Study that occurs throughout the year. We used the results of this study to determine monthly staffing levels for each program. Management direction to reduce backlogs in certain programs skews the actual workload results reported below from month to month.

To the extent that staffing resources could be used to address peaks in workload, overall state personnel costs could be saved. The discussion later in the section shows why such a staff sharing arrangement is not feasible in the near term.

The following shows that total volumes of workload in relation to staffing for all of the programs included in this project were less in the first half than in the last half of the year.



Medicaid volumes tend to overwhelm the statistics. As such the following volume versus staffing excluding Medicaid is presented:



This shows that, on an overall basis, the state's staffing increased slightly while case and/or claim volumes increased. What this tells us is that while opportunities exist to match up staff capacity between individual programs, on an overall basis the opportunity is not very feasible.

In addition, we learned of the significant investment in human resources to enable staff to be productive in the various claims and benefits processing systems. Examples provided by the agencies are as follows:

Labor and Industries:

The process of initiating benefit claims includes entering the claim into the mainframe database only, and does not include eligibility determination. All training for initiating claims is conducted on the job by a trainer sitting with an individual and doing follow-up QA on their work. It usually takes 6 to 8 weeks to learn the process, but it may take up to 5 months for some individuals.

Medical Treatment Adjudicators process medical benefits, and their training is 9 weeks of classroom interspersed with some days of work time. During weeks 10 – 13, the trainees gradually assume all responsibilities of their job, (e.g. their own caseload, answering phones, etc.). From weeks 13 –20, there is a structured quality assurance and coaching activity that occurs every two weeks in preparation for their three-month trial service evaluation.

Adjudicative training (claim managers who make the eligibility determination and handle the claim on an ongoing basis) includes:

17 weeks of WCA1 level training which consists of formal classroom instruction interspersed with periods of work experience. This is followed by 5 months of on-the-job work and training. During any of the work experience/on-the-job training, trainees are checked by a coach until the coach determines their accuracy meets the core management success factors. Once they have reached this level of accuracy, they are released from the particular area of focus (for example, claim validity, first payment of time-loss compensation, etc.)

Following this period, they move to WCA2 training which consists of 12 weeks classroom/work experience followed by an additional 12 months on-the-job.

During the last 3 months of WCA2, they receive their classroom/work experience for WCA3. They are then promoted to that level, with 6 months trial service. Before moving to the WCA2 and WCA3 training, they must pass a proficiency test.

Employment Security

ESD believes that it takes a minimum of 1 year experience for UI intake staff and a minimum of 2 years experience for adjudication staff. New staff are mentored by lead workers, supervisors and trainers. The new adjudicators have much of their work reviewed by a supervisor before it goes out.

DSHS, Medical Assistance Administration (MAA):

MAA believes the motivation and intelligence of the individual is the most important factor in the length of training. They always tailor the length of training to the individual, keeping in mind that they have the 6-month probationary period with which to work. If the person does not seem to have the aptitude for this job, they may let them go within the 6 months.

The length of the initial training (for the first claim type learned) averages about 3 months. The training time for each subsequent claim type averages about 2 months. There are ten claim types at last count.

DSHS Economic Services Administration (ESA):

Typically, ESA financial staff attend a number of training sessions over a 6-12 month period. Interviewing clients can begin after the first training session is complete. Below is an example of what a new hire would receive:

- 3 days system introduction, usually ACES (no break and straight into a core training - often Food Assistance first)
- 14 days Food Assistance training (interview training and protocols included)
- 2-4 weeks back in the CSO processing Food Assistance cases.
- 10-15 days GA/TANF training (includes more interview training)
- 2-4 weeks OJT
- 7-10 days Medical training
- More OJT

The next year, give or take, involves constant auditing and supervisory feedback regarding the on-the-job performance. During this time, in no particular order, staff is sent to as many supplemental training as is required by their particular job (GA/Medical Specialist vs. TANF Case Manager as an example). Training includes but is not limited to:

Child Care - 4 days
Domestic Violence I and II - 1 day each
e-JAS - 1 day
SSPS - 1 day
ICMS - 1 day
Fair Hearing - usually a week
Customer Service - 2 days
WorkFirst- 7 days
Change of Circumstances - 2 days

Due to the changing work environment or job assignments, many of the staff end up attending all of these classes.

Experienced staff receives refresher training periodically. Currently DEAP staff are conducting a NSA (Necessary Supplemental Accommodation) training and Advanced Action Notice training for all staff. Training of special interests vary from 2 hours to 1-2 days. This training is required most often when policy changes or as a refresher.

Conclusion:

While sharing of state wide staff resources makes sense from a cost perspective, it is very cost intensive to train staff in all of the various program specifics. However, from a long-term perspective, cross training, in a more condensed fashion, may benefit the state as a whole, by allowing staff sharing between programs to resolve short-term staffing needs. In this regard, programs that experience very short-term spikes in their volume levels could draw upon available staff in other agencies to leverage their capacity and avoid extra hiring costs.

APPENDIX L: AGENCY RESPONSES

Agencies were afforded the opportunity to review a draft report and offer comments and corrections to the final report. The following represents the agency responses to the results and the recommendations contained in this report. Certain agencies did not provide a response to this audit.

Department of Social and Health Services

The Department of Social and Health Services would like to express its appreciation to the auditors for the work performed and the recommendations they have provided. The agency will review these items and attempt to incorporate them into our program's Strategic and Business Plans.

There are some areas in the audit report in which the agency would like to provide additional information. Some items are general and incorporate DSHS as a whole. Other areas are division or program specific.

Department-wide Items:

The Department of Social and Health Services will work with the Governor's Office and the Office of Financial Management to review the issue of integrating the three performance measurement systems into one system or at a minimum to ensure the performance measures in the different systems are consistent.

The issue raised in Appendix C regarding the management and use of Social Security Numbers (SSNs) as an identifier is currently being addressed by the agency. The Department is aware that benefits are being provided to individuals who do not have or have not provided the agency with a SSN. Per Washington Administrative Code (WAC) 388-476-0005 there are situations where DSHS is allowed/required to provide services to individuals in need even when they cannot provide a SSN.

Some of the programs/administrations currently have data match processes in place. Other programs/administrations within the Department are developing processes that will verify the SSNs on file to ensure they are valid and accurate and will institute processes to obtain valid SSNs to the extent possible.

Administration/Program Specific Items:

Economic Services Administration is focused on increasing access to the Food Stamp Program. In the upcoming year, the Economic Services

Administration will be reviewing and identifying methods to increase participation rates of eligible people in the Food Stamp Program.

Medical Assistance Administration is consolidating the quality review and audit functions into one program area. MAA has reorganized its operations along functional lines, and the provider review section, as well as the hospital and audit units, has been moved under the Payment Review function that is within the Information Services Division.

Division of Developmental Disabilities currently captures information on numbers of people diverted from state hospitals as an outcome measure. DDD collects data on the number of clients in Individual Employment earning at least minimum wage and tracks the numbers of Positive Behavior Support plans completed to help people avoid hospitalization. We believe that these outcomes correspond to the outcome attributed to AASA.

The division is in the process of designating additional outcome measures that will be used in implementing settlement of a class action lawsuit that relates to service delivery if the federal judge approves the settlement and if it is funded by the legislature.

Division of Vocational Rehabilitation is developing a management target to address staffing issues. The division exercises little, if any, control over the number of FTEs that are authorized, so setting a target for adequate numbers of staff would not be relevant. However, in its 2004-2009 strategic plan, the division has established a management goal to fill existing positions with qualified staff and to retain the most qualified VR professionals. The goal is as follows:

GOAL 2: Implement a recruitment and retention plan that ensures the hiring and retention of the most qualified VR professionals.

Division of Vocational Rehabilitation is addressing job retention of our customers. It is inaccurate to state that the division is not focused on job retention for our customers. The division purchases substantial job retention services for those we serve who need these services. Returning to the division for additional services is frequently focused on retaining or advancing in current employment. DVR does track samples of those employed successfully over several years. This measure is a part of the DSHS Balanced Scorecard.

In addition, it is expected that our federal partner will institute a standard around job retention, in the not too distant future.

Economic Security Department

In spite of the fact that Washington has had the highest or second highest unemployment rate in the United States for more than a year, the US Department of Labor has cut our funding. For this budget year, we are getting $14 million less than we requested to administer the Unemployment Insurance program. This budget cut will make it extremely difficult for us to meet our performance goals this year. It will be particularly difficult to meet the performance goals for first pay timeliness, nonmonetary timeliness and nonmonetary quality.

STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

Insurance Services Division, Post Office Box 44100, Olympia WA 98504-4100
Phone (360) 902-4209, FAX (360) 902-4940

November 15, 2002

Steve Miller
Miller and Miller P.S.
4240 W. Cramer St.
Seattle, WA 98199

Dear Mr. Miller:

Thank you for the opportunity to provide comments on the draft Claims and Benefit Performance Audit. We appreciate that you've provided an environment throughout the audit that allowed for open communication and discussion.

We are pleased to see your acknowledgment of the agency's competitive premium rates and the progress made in fraud detection and quality assurance. It was also good to see that your review of the cross-agency data confirms the success of inter-agency collaboration in preventing inappropriate overlap of benefits.

In large part, we concur with your recommendations. In many cases, we are evaluating moving in the direction you indicate. We do have a few areas of clarification or concern about the report.

Program Objectives

Under "Summary of Program Objectives," you listed the workers' compensation program under the "employment assistance" category. While this is appropriate, it is important to note that workers' compensation addresses all three program objectives you describe and might have been more appropriately placed in one of the other categories.

- Under the "economic assistance" category, in the event of a job-related injury or illness, we provide time loss to injured workers, pensions to totally disabled workers, benefits to survivors when a worker dies, and monetary awards to workers with permanent partial disabilities.

- Under the "medical assistance" category, we provide diagnostics and treatment related to on-the-job injuries or illnesses. This area is where most of L&I's customers have contact with the department.

- Under "employment assistance," the workers' compensation program provides vocational rehabilitation to help injured workers become employable.

Performance Measures

You reached several conclusions and, based on these, made recommendations regarding L&I's performance measures. We continuously review and improve our performance measures as evidenced in our 2003 scorecard and will take your recommendations into account as we move forward. Here are two changes we suggest you consider making to the report:

It is worth noting that the agency compares favorably not just with monopolistic state funds, but also *private* workers' compensation insurance companies. As I mentioned earlier, comparative data is available from A.M. Best, an underwriting organization that tracks all types of insurance data. L&I's processing and administrative costs are less than half that of the average costs for private workers' compensation insurers.

Financial Significance

At the beginning of the report, you listed caseloads for the various agencies involved in this audit. It appears to us that, in some cases, you listed agencies' yearly workload, but for L&I, you listed the average active caseload. L&I's active caseload at any given time is around 60,000, but about 160,000 new claims are received per year. You may want to consider using the 160,000 figure to ensure that our numbers parallel those of other agencies.

We appreciate the opportunity to provide these comments and look forward to meeting with you in the exit interview later this month.

Sincerely,

Doug Connell, Assistant Director
Insurance Services Division

cc: Jim Brittain, Office of the State Auditor
Gary Moore, Director
Eva Santos, Deputy Director